Challenge

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letters TO THE EDITOR

Challenge invites your comments. Address letters to CHALLENGE, *475 Fifth Avenue, New York 17, N. Y.*

Union democracy

•Mr. Raskin [*Back to the Rank and File,* August-September, 1958] has admirably described some of the drawbacks to greater union democracy. The average union member has neither the time nor the inclination to go into the more detailed aspects of collective bargaining or organizational management. I agree with Mr. Raskin's opinion that the rank and file must be satisfied with an "*ex post facto* review" of their leaders' policies. Too many critics call the Reuthers and Meanys dictators for acting in the only way today's complex society permits.

RICHARD KOLODZIEJ
Detroit, Michigan

Projections

•May I comment about the article about me in your August-September issue? It states that I have won "few adherents" for an annual economic growth rate of about 4.7 per cent. The recent *Rockefeller Report* on our national economy advocated five per cent, and was hailed in editorials throughout the country.

Your article portrays "more modest economists rebelling at such drastic planning" as my proposals for tax reductions, easier money, a bigger federal budget and the encouragement of big industries to raise wages and lower prices. Such proposals are no more "drastic planning" than current proposals to increase taxes, tighten up money, etc. Anyway, tax reduction has recently been advocated by Arthur F. Burns, called by some "the greatest business cycle expert"; easier money is being urged by Elliot V. Bell, editor of *Business Week;* and a bigger federal budget is being urged by many modest economists.

Your article says that I insist that "healthy growth could make inflation manageable." On the contrary, my studies have pointed out that sustained full employment at an economic growth rate close to five per cent (as distinguised from the eight to 10 per cent of some war years) produces less price inflation to be "managed" than the excessively low growth average of most recent years. More economists are coming around to this position, as they reconstruct theory to take account of empirical observation.

Your article speaks satirically of targets which I have advocated, because they "outbid the economy in terms of exuberance," and "continue to sweep onward and upward as the economy itself falters." Re-

spected forecasts now indicate a much slower recovery toward full employment and full production than many economists deem desirable. As for setting high targets when the economy is faltering, it is better economics to adjust our objectives upward toward full utilization of our resources, rather than to compound our shortcomings by adjusting our objectives downward to a repressed or retreating economy.

Your article refers to my refusal to be "dazzled" by the growth of the American economy after World War II. Why should I be? When I first projected our advance to a 300-billion-dollar economy, while many were predicting the long-awaited postwar depression, my projections met with stereotyped criticism. But they turned out to be below what the economy actually achieved.

LEON H. KEYSERLING

Washington, D.C.

Chance Figure

•On page 13 of your August-September issue, Mr. Baker says, "In 1957, the combined income of legal and illegal gambling was reputed to be about 30 billion dollars." I have often wondered how much money was gambled away in this country; consequently I am wondering how the author arrived at his figure.

CHARLES E. GREEN

Greenwich, Conn.

The figure quoted was an approximation, because there is no way of determining the exact figures on illegal gambling. Most of the gambling statistics were gathered from recent debates on the lottery question, which appeared in the Congressional Record. I also received estimates from officials of the Internal Revenue Service.–L.B.

Criticism

•Apparently Mr. Keyserling's optimism about deficit spending has you as well as many other intelligent economic commentators baffled. Poor Lord Keynes urged an unbalanced budget in times of economic desperation, but misguided followers, like Mr. Keyserling, forget the other side of the Keynesian theoretical coin by demanding huge governmental expenditures whenever gross national product drops a few decimal points. Too often, these bemused (thinkers?) press the economic panic button–accelerating the disaster they so wish to avoid.

FRED SPERRY

Forest Hills, New York

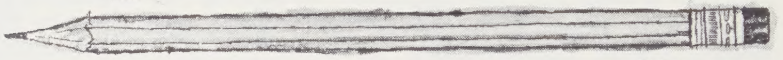
Gruntled

•Your magazine seems to take a particular delight in ribbing the advertising industry. The profile on Revson, the repeated gibes in *Challenge Notes* and your fillers present a mockingly distorted version of what the industry is really trying to do. Slogans such as "togetherness" and "brainstorming" may meet with your editors' disapproval, but they are helping to sell more goods, increase public sympathy toward big business, and accelerate the flow of creative ideas. Experts predict that advertising will continue its phenomenal growth, and this, I am sure, will make a lot of disgruntled intellectuals even more disgruntled. Straighten your tongue and recognize a valuable service when you see it!

RHODA ROSS

Chicago, Illinois

a personal note



from the editor

What's all the shouting about inflation anyway?

■ THE WARNING BELLS which as recently as two months ago were alerting us to the dangers of a prolonged recession are now being sounded to put us on our guard against the coming of another wave of inflation. It seems that the American public can no longer look forward to a good, old-fashioned period of healthy, untarnished prosperity. Maybe there isn't any such bird. Maybe it has become extinct, like the dodo, and should be mourned by only the few economic ornithologists who persist in making a fuss over things passé.

However, there are many economists and noneconomists who *are* making a fuss over the inflationary aspects of American economic expansion, even while they point out the benefits of such expansion. This tends to be confusing. One should be excused for concluding that either there is something really wrong with our economy, or there are a lot of important people around who can't tell a dodo from a high-flying bald eagle. To confuse matters still more, we are told that the bald eagle will also become extinct before long. What inference we are to draw from that bit of incidental information I do not know. Perhaps none is called for.

But this I do know. There is such a thing called inflation. During the past 20 years inflation has whittled down the 100-cent dollar to a 50-cent dollar. At the rate we are going, a 25-cent dollar is almost a certainty by 1970. Now, either this is the tail-end nuisance of a lot of good things that have happened in the meantime, or the lead ogre in a chain of many more horrors to come. It is difficult for the ordinary man to say which of these two descriptions fits our secular (cantering, not galloping) type of inflation; the experts, from whom we expect some horse sense in such matters, are in disagreement among themselves. Some say that inflation at a gentle canter is a reasonable, modern day

concomitant of economic expansion. Others say that the economic bridle paths are strewn with the broken bones of those who cantered themselves into a fast gallop. You have your choice.

As for how I see all this, I am not in the running as an expert on inflation; but I do believe that a cantering inflation will be with us for a long time to come. In fact we have insisted upon the creation of conditions which practically *guarantee* that inflation will be a permanent part of our economic lives. We have secured a firm commitment from government that the economy will at all times sustain a high rate of employment. Having attained a comfortable level of living, we strain available resources in an impatient attempt to realize even higher standards. If a sizable portion of national income must go into supporting a large defense establishment, the civilian economy nevertheless expects to continue with business as usual. In a sense, we are a little spoiled. We want to have our cake and eat it, too. And we have thus far managed to do just that. The only cost: some cantering inflation.

The major portion of the American public can look back on the postwar period of inflation with some satisfaction. It now takes two dollars to do what one dollar did then. Is this bad? Not if you have more than two dollars at your disposal. Real wages have gone up. Additional benefits have come from shorter hours of work, more vacation time, a greater variety of available goods, and so on. The man who had little money saved in 1939 is not really concerned about the fate of the '39 dollar. The inflationary period has been good to him. Those who see their livelihood tied to the values of 1939 are so few in number that they are without influence.

Money is still employed as a medium of exchange, but its status as a store of value continues to slip. To the inflation-nurtured man, money is a commodity which should be traded quickly for other, more desirable items. Such a man is also becoming equity conscious; he is now willing to pay almost any price to buy equity in something (hedge against inflation, he says).

Well, can we be sure that the disaster of a galloping inflation will never overtake us? I have already said that I think we shall go on at a canter for a good time to come. But don't get me wrong. I think we are riding straight into real trouble. It's just that I think a lot of people think that if ever there should be trouble, the government will have to think of something–like raising the numbers on dollar bills, for example. That would slow us down to a nice, enjoyable canter in no time. Sure it would–H.B.

Challenge Notes

Government bonds and inflation; foreign aid: "give-away" or export subsidy; economists and the late recession; nonobjective art

■ WITH THE return of prosperity, the government once more finds itself competing for scarce money. While most recent Treasury issues have fared rather better than expected, the price of success has been high. Today the interest-cost of the national debt approximately equals the average total budget of the New Deal years.

The problem promises to become increasingly acute. During fiscal 1959, the Treasury will be asked to refinance (in addition to its regular short-term operations) some 49 billion dollars worth of maturing securities, and to finance a government debt of 12 billion dollars. The prospect frankly worries the experts.

The government's difficulties reflect far-reaching changes in the securities' market. More and more the government must turn to large nonbank institutions such as investment companies, trust funds, etc. As long as government bonds were considered "safe," this shift did not matter since institutions traditionally prefer safety over high yield. But inflation has eaten into this safety factor. Today even the higher interest rates barely protect the real value of the principle.

In a recent speech, Treasury Secretary Anderson appealed to institutions to assume their "responsibility" of helping the government in its financing job.

While we sympathize with Mr. Anderson's problems, this is surely a strange request from so firm a believer in free enterprise. The major responsibility of our financial institutions is to protect the funds entrusted with them. It is the government's job to attract would-be buyers for its issues. And it is the job of all of us to halt an inflationary trend that is costing the Treasury (that is, the taxpayer) much too much.

Criticizing foreign aid

Often labeled a "give-away" program at home, foreign aid is frequently attacked abroad as political bribery and/or a subsidy

program for American exporters.

What these critics overlook is that foreign aid, if it is to be effective, must at times be all these things. There are occasions–famine in India, a tropical blight in Burma, a cholera epidemic in Latin America–when foreign aid is, in fact, a simple gift. But such "give-aways" account for only an infinitesimal portion of "foreign aid."

It is also true that foreign aid has, on occasion, been used to influence the national policies of the beneficiaries. But if this is "bribery" so is all foreign policy which seeks to influence other governments–and influence through economic aid is surely a more constructive means than military belligerence.

The vast majority of our aid, however, is a substitute for, and stimulus to, trade. The Marshall Plan in Europe, our programs in Latin America and even our defense-support programs in the Middle and Far East, have been designed primarily to free the dollar exchange of recipient countries for essential private buying. To dismiss these programs as "subsidies" for U.S. exporters is absurd. Until they have devised a better way for the transfer of capital and for the stimulation of private foreign trade with underdeveloped countries, the critics will be serving the taxpayer best by seeking to improve the existing program.

Economic advice

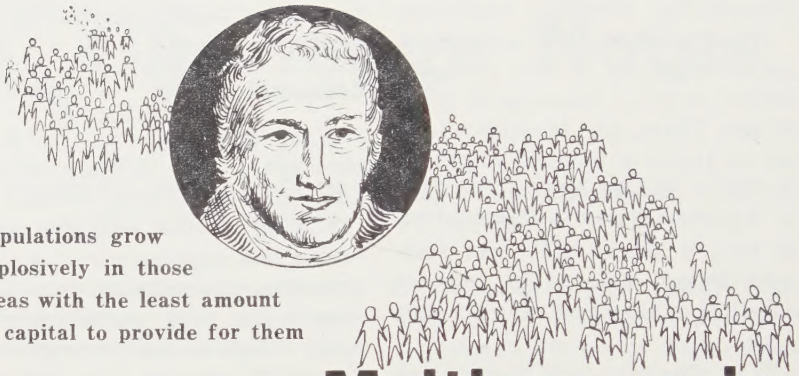
Have economists demonstrated once again their inability to evaluate current business trends?

During the late recession, most economists appearing before Congressional committees took a grave view of the then prevailing economic situation and advocated an immediate tax cut. The Administration, under the leadership of the Treasury, successfully resisted these pressures on the ground that such stimuli were unnecessary and would encourage inflation.

As far as the tax cut proposals are concerned, events have vindicated the Administration–as most economists would be prepared to admit. But the recession of 1957-58 was the most serious since World War II, and it would be a grave mistake to ignore the warnings of the economists. The "inflationary" nature of the recession and the "repressed" nature of the current recovery indicate a rigidity in adjusting to changing demand and supply factors that should be carefully studied.

Nonobjective art

A recent advertisement by a leading woman's fashion store: "How to dress as if money were no object."–M.K.



Populations grow explosively in those areas with the least amount of capital to provide for them

by Joseph J. Spengler

Malthus again

■ WHEN WORLD WAR II ended, many believed that at long last the cross of poverty, which still weighed upon more than two-thirds of the world's inhabitants, might in time be lifted. The answer, they supposed, lay in the mechanization of economic activities and in the modernization of living conditions. They could point to the fact that about three-quarters of the world's output of goods and services was being produced by that quarter or so of the world's population which lived in countries whither England's 18th-century Industrial Revolution had spread. Or they could remark the accomplishment of the Soviet Union, forgetful perhaps of the terrible cost of this achievement.

In the past decade or so the economic condition of many low-income peoples has undergone improvement. In some, improvement had gotten under way already in or before the early 1940s, often fed by external demand. In others, it was set in motion after the war, often with the assistance of capital and technology from more advanced lands. Meanwhile, however, another revolution was gathering momentum—man was not abolishing death, but he was greatly increasing his control over the time of its occurrence.

When the Industrial Revolution got under way in England and later in Western Europe, per capita income was higher than in many present-day underdeveloped countries. Conditions had long been improving, although usually at a snail's pace. An agricultural revolution was increasing the supply of food and raw materials, which was to be greatly supplemented in the second half of the 19th century with the develop-

ment of farming in America and Australasia, and the reduction of the cost of ocean transport.

Populations were relatively small; in 1800 only France and Russia had populations of 30 millions, while that of the United Kingdom approximated 15 millions. Population density was far below that of the heavily populated parts of contemporary Asia and its neighboring islands, where today some one billion persons crowd the land at more than 420 per square mile. England and Wales and Holland, with about 160 persons per square mile, were more densely populated than the rest of Europe, with the exception of Belgium, Wurttemberg and parts of Italy.

Population grew very slowly in Europe between 1750 and 1900, even after improvements in economic conditions had pushed up the rate of natural increase somewhat, principally by bringing about a continuous but very gradual fall in the death rate. Natality was always relatively low in Western Europe, remaining in most countries below 35 per 1,000; only in Eastern Europe did one find birth rates of around 45 per 1,000 inhabitants.

In much of the West, natural increase remained slightly below 10 per 1,000 per year before 1850. It rose only a little above that after 1850. Actual increase was somewhat lower, since net emigration carried many millions abroad. Between 1800 and 1900 only six of 25 European countries experienced a rate of population growth in excess of one per cent. The population of Europe as a whole grew annually about 7/12 of one per cent in 1750-1800, nearly ¾ per cent in 1800-50, and about ⅞ per cent in 1850-1900. Even in the United States the population grew only three per cent per year in 1800-60, and only about 2¼ per cent per year in 1860-1900.

Capital formation proceeded slowly in Western Europe at first. Available data suggest that at first little more than five per cent of the national product was converted into capital. By 1688, the rate was about five per cent in England and France and above 10 in Holland, reputedly the land of savers. In Western countries, beginning in the early 19th century, capital was formed at rates ranging from somewhat below to somewhat above 10 per cent of net national product. With population growing less than one per cent per year most of the time and with technical progress increasing output perhaps one per cent per year, national product

Joseph J. Spengler, Professor of Economics at Duke University, is a leading authority on the world's population problems.

could grow at rates ranging between 12 and 36 per cent per decade. Per capita income rose at annual rates of one to two per cent.

Intense population pressure is manifest today only in Asia, North Africa and the Caribbean. It can hardly be said to exist generally in Latin America or in Middle and Southern Africa. The 302 millions living in these lands in 1950 averaged about seven persons per square kilometer, or one-third of ours. By contrast density in 1950 approximated 69 in the Caribbean. Most of what I have to say pertains only to the 1.6 billions, or nearly three-fifths, of the world's population which lives in Asia, North Africa and the Caribbean.

In many of these areas the food supply is quantitatively and qualitatively deficient. It is unlikely that these deficiencies can be remedied in areas like East Asia where population density already ranges from 500 to 1,600 persons per square kilometer of arable land. The ratio of agricultural population to agriculturally usable land is about three times what it was in European countries when they were predominantly agricultural. There is little likelihood that the agricultural populations of these countries will soon be reduced, or that foodstuffs will become locally abundant.

Japan's agricultural population remains about as large as it was seven decades ago, and it must import ever more food. Even should these problem areas prove able to solve the food problem, they will still find modernization of outlook and methods difficult as long as seven-tenths of the labor force remains in agriculture.

Intensified pressure

Shortage of land is not offset by a high rate of capital formation, even when increasing numbers intensify the pressure to form capital through inflationary measures. With the principal exception of Japan, essentially an industrially advanced country, the problem-area nations continue to form capital at an annual rate of less than 10 per cent of net national product. Yet, with their populations often growing two or more per cent per year, a saving rate of 8-10 per cent suffices little more than to offset population growth. For it takes a saving rate of something like four per cent of national income to equip a one-per-cent increment to a population with industrial, public and consumer capital. If population is growing two per cent annually, this required saving rate, whatever it happens to be, must be doubled. Even if improved methods are being introduced from abroad and financed in part

through foreign loans, a high rate of domestic capital formation still is required to complement foreign capital and to make possible the use of advanced methods.

Nor is shortage of land offset by access to raw materials which can easily be exploited or converted into exports to finance technological progress. Few of the problem-area lands can support economic development with proceeds from the foreign sale of depletable resources such as oil and minerals, or of widely used raw materials such as rubber. India and China, because of size, are perhaps the only problem-area countries with many of the mineral and other requisites for industrial development. Yet even their supplies are relatively small, given their very large and rapidly growing populations.

Mortality rates

The second quarter of the present century witnessed a change without parallel in man's history, a severing of the century-old connection between economic progress and the movement of mortality. No longer was declining mortality a sequel to rising real income, followed by betterment of living conditions and improvement in medical science. Mortality could now fall rapidly whether or not economic conditions progressed, and at a sustained rate more than double that experienced in the West. It became possible, for the first time in man's history and at small cost, to control such diseases as malaria and to prevent or cure others which in the past had taken a large toll. On occasion mortality declined more than 40 per cent in a decade. Between the early 1920s and the mid-1950s, mortality rates in representative underdeveloped countries were halved.

Meanwhile, natality persisted at its old high levels. The decline in natality about which so much has been written was never worldwide. It was confined to Europe and Russia, Northern America and Australasia, Japan and several Latin American countries. In the 1950s, crude birth rates still fall within a range of 40 to 50 per 1,000 in Africa, Asia (exclusive of Japan where natality has moved below 20) and much of Latin America, compared with about 24 in the United States. In the demographic-problem areas, therefore, natality not only is high; it is appreciably higher than it was in Western Europe 150 years ago. For this a combination of circumstances is responsible: institutions and beliefs which favor early marriage and procreation, a traditional way of life, predominance of argiculture and slowness to appreciate the significance of falling mortality.

Because mortality has fallen whilst natality has persisted substantially unchanged, natural increase has risen to extraordinary levels and sometimes even exceeds the early 19th-century American rate of three per cent per year. The United Nations secretariat estimates that the aggregate population of these problem-area lands may continue to grow two per cent per year and number 2.3 billions in 1975 and perhaps more than 3.5 billions by 2000. Population growth will probably eat up most of the fruits of progress.

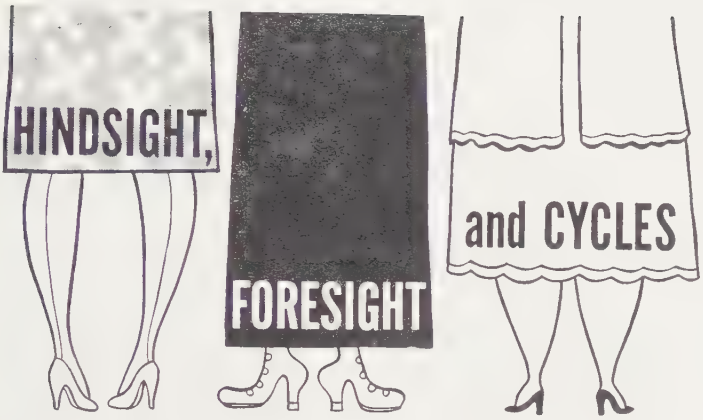
A high rate of natural increase gives to an unfavorable age composition. In the demographic-problem areas, therefore, one finds relatively many who are too young to work and relatively few who are of working age. Around 1950 in underdeveloped countries only 53 to 59 of each 100 persons were aged 15-64. The corresponding figure for developed lands was 62 to 67; it was, on an average, at least one-third higher in these lands than in the problem areas.

Major deterrent

Two advantages flow from a favorable age composition. First, productive power per capita is much higher. Second, it becomes possible to educate the young effectively, since there are relatively fewer children and relatively more adults.

Population growth is a major deterrent to the rise of per capita income in demographic-problem areas. It absorbs capital that might otherwise better a people's productive equipment. It increases the pressure of numbers upon scarce land and resources. It renders a population's age composition less favorable to production and to the education of its children. It was supposed, in a recent study of India, that life expectancy would rise from 32 years in 1951 to 52 in 1986. Numbers would rise to 775 millions by 1986, and income per adult consumer unit would increase 14 per cent. If, however, fertility declined by 50 per cent in 1956-86, population would number only 589 millions by 1986, and income per adult consumer could rise 92 per cent under similar conditions of production.

If all this be true, why is so little being done to halt population growth? Presumably, ignorance of the effects of population growth, together with governmental inability or unwillingness to intervene, plays an important part. Most responsible perhaps is the shortness of the time horizon of man and his leaders. Carthage welcomed Rome's rise, much as today an undersettled Soviet Union welcomes the rise of a 600-million Sinaean power increasing some two per cent per year. ■



Business conditions sometimes follow the ups and downs of hemlines more closely than the scientific indicators

by William H. Chartener

■ THE RAISING and lowering of ladies' hemlines has been closely paralleled during the past 30 years by increases and decreases in industrial production. It is one of the best possible signs for business when skirts threaten to go higher than ever before.

This correlation between cycles in business activity and the height of hemlines, reported recently by the McGraw-Hill Publishing Co.'s Department of Economics, carries on a long tradition among economists. For a century or more they have been fascinated, not only by the tendency of business events to move in cycles, but also by the strange coincidence of ups and downs in business with apparently unrelated phenomena.

The most famous of these parallels is the sunspots case. The great English economist, William Jevons, observed that the alternate increase and decrease in area of dark spots on the sun's surface seemed to be reflected in fluctuations in the financial markets on earth. Advance signals on financial panics have also come from the eruptions of Mt. Vesuvius, drops in the water level of the Great Lakes and dips in the betting on the Kentucky Derby.

The expression "cycle"–from a Greek word meaning "circle"–is applied by economists and natural scientists to events or sequences of events that recur in a more or less regular fashion. Simple examples from nature include the succession of day and night, the seasons, the phases of the moon, the tides and the appearance of comets at regular intervals. Superstitious folk who look for airplane crashes or other disasters to

come in threes are also moved by the idea of cycles.

How do you know a cycle when you see one? Some cycles, of course, become apparent to any observant person with a reasonably good memory. This would be true of most of the simpler examples from nature, and also of certain economic developments that follow a clear seasonal pattern, like changes in prices of farm products. It requires, however, careful analysis of statistical records collected over many years to identify economic or scientific cycles. The pattern may become clear as soon as the data are put on a chart and show successive swings up and down. But often it is more complicated, and involves several different, even conflicting, influences.

Ups and downs

You may analyze an index of industrial production to see if there is any cyclical pattern of ups and downs. You will perhaps notice first that there is a long-term trend upward, and then that there are rather regular movements up and down within each year. A statistician analyzing the data would compute any such long-range trends and seasonal movements and would adjust the data to remove their influence. Then he might be able to see a regular rise and fall roughly every three or four years.

Studies of cycles in economic data have shown that cycles tend to have certain lengths. Some of them are: industrial production and interest rates, three and one-half years; wholesale prices and common stock prices, nine years; building and marriages, 18 years; and wheat prices and farm wages (England), 54 years.

In nature, also, numerous regular cycles have been discovered. Records of the catch of salmon in the Restigouche River in Canada show a cycle between peak years of about nine and two-third years. Cycles of similar length have turned up in the offerings of lynx skins to the Hudson's Bay Company and in the letters of complaint on tent caterpillars addressed to the New Jersey State Entomologist. Deaths from pneumonia and influenza are examples of phenomena which seem to follow a three-year cyclical pattern.

Some cycles in nature run much longer. For instance, a recent issue of the magazine *Cycles* carries a report on a 40,000-year cycle in world temperatures. The last low point having been reached 18,000 years ago, a peak should be attained in about 2,000 years, followed by 20,000 years of falling temperatures which might put

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Long Island under a sheet of ice.

The practical appeal of the study of economic cycles is their value in forecasting price trends and other business developments. This is why security analysts and commodity specialists keep detailed charts on price movements and maintain a constant search for recurring patterns. They hope that they will be able to anticipate future turns in the market and know when to buy or sell.

Lack of rhythm

The main problem with economic cycles is that, unlike some of their counterparts in nature, they refuse to follow a perfectly rhythmic pattern. A particular price may move up and down again on the average of once in nine years, but the interval may be eight years one time and 10 or nine years the next. Technological changes or catastrophic events such as wars, moreover, can upset the normal sequence.

Some economists have tried to overcome this problem and make the course of economic cycles more readily predictable by keeping track of related developments. The National Bureau of Economic Research, after studying more than 800 statistical series, found that eight of these had in the past made a good record in calling the turn on business. These eight "leading indicators"–which include wholesale prices, industrial common stock prices, building contract awards, new orders for durable goods, average workweek in manufacturing, new incorporations and business failures–typically move up and down before such indicators of business activity as employment and industrial production. Thus they provide clues to the onset of recession or recovery.

Even these leading indicators are not completely reliable. They sometimes give false signals and at other times are not clear in their warnings. Some students of business cycles have had other theories which, they contend, do at least as good a job of forecasting and are less equivocal, even though the logical connection with business activity may be remote.

Equine indicator

The volume of betting on the Kentucky Derby is one of the newest of these indicators for forecasting business conditions. The Tyrus R. Davis Company of Louisville has traced the Derby parimutuel receipts back to 1920 and found a remarkable correlation with the ups and downs of the economy. A dip in 1928 preceded the 1929 crash, and sharp drops in 1948 and 1957 signaled two of our postwar recessions. A 16-percent rise in wagering on the Derby last May was one of the

early signs of business recovery.

The rise and fall of ladies' hemlines also has a good record for showing which way business is headed. Back in the 1920s business climbed along with the skirts of the flappers. As skirts became longer in the 1930s, the business slump deepened into the Great Depression. After the war, when Dior's "new look" brought skirts briefly down near the ankles, business likewise took a quick dip in 1949. Now the trend–in skirts and in business–seems to be up.

Volcanoes, lakes and sunspots

Eruptions of Mt. Vesuvius not only have been a source of commotion for Southern Italy but also seem to have been closely associated–at least in timing–with panics in New York financial markets. The Wiesenberger Investment Report described this correlation as follows: "In 1872, Vesuvius threw Naples into turmoil, in 1873, Jay Gould threw Wall Street into turmoil. In 1906, Vesuvius erupted, and in 1907, Wall Street collapsed. Vesuvius started its last spree in 1929." Other studies have indicated a coincidence between drops in the water level of the Great Lakes and major financial panics.

The sunspot theory of business cycles does not have many adherents now, because the parallel between the sunspot cycle and the business cycle has not been nearly as close in this century as it was earlier. The explanation may be that sunspots influence business indirectly through their effects on weather and crops, and our economy is no longer dependent on agriculture as it once was.

Planet theory

One of the most elaborate theories of business forecasting, based on the planets, has been developed by David Williams, manager of cable purchases for the Consolidated Edison Company and a past president of the Astrologer's Guild of America. When the planets Jupiter, Saturn and Uranus get in certain geometric positions relative to the sun, they alter the electromagnetic field that surrounds the earth. "Changes in the strength of this field," according to Williams, "produce profound changes in the physical environment in which we live, and hence affect our very lives." He has worked out planetary configurations from 1760 through 1984 and found what he regards as a remarkable record of correlation with cycles in business activity. By this device, too, the outlook for business is favorable over the next two years.

There are varying opinions on the value of cycles for forecasting business. Edward R. Dewey and Edwin F. Dakin, in their book,

Cycles, write: "The student of periodic rhythms in human affairs has a tool which the law of averages itself puts into his hands. If trends have continued for decades, or if the oscillations of cycles around the trend have repeated themselves so many times and so regularly that the rhythms cannot reasonably be the result of chance, it is unwise to ignore the probability that these behaviors will continue."

A more cautious conclusion was reached by institutionalist Wesley C. Mitchell, who said: "Business history repeats itself, but always with a difference. A thoroughly adequate theory of business cycles, applicable to all cycles, is consequently unattainable. Every business cycle, strictly speaking, is a unique series of events and has a unique explanation, because it is the outgrowth of a preceding series of events, likewise unique."

Backward "forecasts"

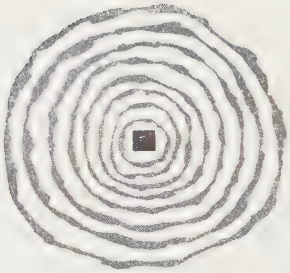
One should not be too impressed with cyclical patterns and parallels that have been worked out from statistical records. They look good because they are developed out of hindsight, and it is always easy to "forecast backwards." The discoverer of the relationship may have studied and tried hundreds of possibilities, and the odds are that eventually he would find something that seemed remarkable. The sunspot theory, thus, has lost adherents as its remarkable paralleling of business conditions become less remarkable.

Some cycles and parallel movements do, of course, have logic behind them and therefore make good sense in forecasting work. Even with those that seem illogical, there is always the chance that they will continue an uncanny record of prophecy. Perhaps there is a logical connection that simply is not yet understood.

The fact that two or more cycles, in nature or in any business, seem to follow the same course does not in itself prove that one causes the other, or even that they have a common cause. It is logical that years when rabbits are abundant should also prove to be big years for trapping foxes, for foxes thrive on rabbits. It is logical also that headaches and aspirin sales should increase when business is going down. Other relationships may turn out to be merely statistical accidents that change as soon as you begin to rely on them.

A generation that has had to become accustomed to atomic energy and manmade satellites should not be too surprised if someone does develop a plausible theory tying together the movement of planets, volcanic eruptions, and even betting on horse races and trends in fashions with the no-less puzzling behavior of the stock market. ■

Dilemma of the Unorganized



by Karl Schriftgiesser and Karla S. Irvine

The proliferation of interest groups may force the individual into the political activity he has neglected

FACED WITH the reality of modern industrial America, with its complexity of organization, its highly efficient system of communications and the increasing involvement of organized groups in the politics of the nation, many observers have felt that our traditional system of representation has become outmoded.

The men who wrote our Constitution based their beliefs on the individual as a key figure in shaping governmental policy through representative institutions. How realistic is this theory today? Is the individual politically effective only through organized interest groups? And is the interest group in itself a deterrent to representation because of oligarchic tendencies in the growth of these organizations? Finally, are there *unorganized* individuals who suffer discrimination because they cannot compete against the political power of organized groups?

Observers of the American political and social scene have long been struck by the enthusiasm with which Americans join and form groups. Yet our political theories are based on the ideal of the individual acting rationally and in his own interest through representative political institutions. "For let it be agreed," said Thomas Jefferson in 1816, "that a government is republican in proportion as every member composing it has his equal voice in the direction of its concerns (not indeed in person, which would be impracticable beyond the limits of the city or small township, but) by representatives chosen by himself

and responsible to him at short periods . . ." Is there a conflict between the idea of individual choice and the reality of group-inspired political action?

The authors of the Constitution thought of factions (by which they meant interest groups as well as political parties) as having an adverse effect on the rights of the individual citizen and to the aggregate interest of the community. Our form of government, argued Madison in the *Federalist,* was a means of controlling the evil effects of faction. The influence of a minority faction would be defeated by the regular vote for representatives. What Madison feared most, a majority faction which would ride roughshod over the rights of person and property of the minority, could, he believed, be held in check by the federal system, by the size of the country and by the lack of nation-wide communication among those with a common interest.

In the United States, the growth of interest groups has followed a wavelike pattern closely related to the tide of industrialization which began to sweep the country at the close of the Civil War. Interest groups–the organization of individuals on the basis of a shared attitude–have resulted from disturbances in the usual pattern of relationships brought about by technological, social and economic change. The triumvirate–labor, agriculture and business–are those most commonly recognized. The most powerful and influential groups in our society fall into these categories precisely because conflict has existed and exists in these areas. Most interest groups act politically; nor are they always economic in nature.

Most interest groups do not seek access to government until they have achieved some power and status. Access to government is sought for two basic reasons: the interest group has not been able to establish an equilibrium; or, in the process of becoming powerful it has "bumped" into other competing groups and the conflict has become so severe that the mediating influence of a larger institution is necessary. Government has been the only institution in modern society which supercedes all others. Madison may prove to be right when he said that "the regulation of these various and interfering interests forms the principal task of modern legislation. . ."

The degree to which interest groups can influence governmental policy is determined in part by the structure of our political institutions. Federalism, the so-called

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separation of powers, and the two-party system all provide access to government for interested groups.

Another channel to government policy is in the executive branch. Here the growth of the executive and the split between executive and administrative functions provides an area where interest groups can exercise leverage on Congress. The administrative departments such as Commerce, Agriculture and the Interior have had written-in relationships with corresponding interest groups: Commerce, with trade associations; Agriculture, with the Farm Bureau; and Interior, with mining, mineral and power interests. Since the 1930s this has also been true of the relationship of the Department of Labor to organized labor, although a considerably hostile relationship existed before then.

The administrative departments have tended to become autonomous centers of interest group power. Often the departments act as interest groups, exerting pressure on key figures in Congress. The passage of the recent Reciprocal Trade Act was the work of a coalition of interest groups led by the Department of Commerce.

Bridge of communication

Political parties have traditionally been the bridge between the individual and the government. The fear of Madison and other Federalists that the division of interests would harden into a contest between the haves and the have nots has fortunately never been realized. Madison was quite right in supposing that the federal system and the lack of any immediate means of nationwide communication between those with common interests would, together with other factors, prevent this sort of division.

What is the argument against group representation? Basically, it is based on the pluralistic nature of our society. The interest group can only *partially* represent the individual because no single group affiliation can possibly account for all the interests and activities of one individual. The degree of consensus and the durability of that consensus will depend on the overlapping memberships of the individuals who form the group.

Not only must group representation necessarily be partial representation, but the institutionalization of large interest groups has considerably reduced the individual's ability to gain adequate representation for even these partial interests. The rank-and-file union member in many large unions, and the small stockholder in most corporations, is for all practical purposes completely unrepresented. Like the consumer, these

groups find it increasingly difficult to make themselves heard in our highly organized society.

Labor unions are interest groups which wield tremendous political and economic power. In most instances, unions were formed as a result of disturbances in the usual pattern of relationships between worker and employer. Briefly, these changes included the growth of the corporation which meant that the worker no longer dealt with his employer on a personal basis; modern industrial techniques and the corresponding division of labor; the insecurity of employment in basic industries which are subject to abrupt fiscal changes.

The democratic mold

Labor unions are *organized* to conform to the democratic mold; that is, their internal organization is supposed to conform to the representative pattern. The leaders are ostensively responsible to the membership through regular and frequent elections. In fact, labor unions have a powerful economic hold over their membership through devices such as the closed shop. They also tend to take on an all-embracing quality, supplying many of the benefits which their membership once sought in the community at large.

The issues of communism and corruption in labor unions have dramatized the danger of oligarchic control even in organizations which are formally democratic. The control of a democratic organization by an active minority is not new; apathy among the general membership is not peculiar to labor unions. What is new, largely because of the nature of the issues involved, is the increased involvement of government itself through investigation and legislation. The watchdog role of government in union elections and the nationwide publicity given to the internal affairs of the union has forced the union leadership to clean its house and reassert the value of rank-and-file participation.

Another possible "organizational threat" to the pluralistic society is the corporation. The corporation as an institution is characteristic of a highly industrial, technical and specialized society. It is an economic institution; not an interest group. Of course, as we noted earlier, this is increasingly true of other institutions as well, but it is the corporation which clearly illustrates this transformation from interest group to institution. Corporations usually join trade associations. The corporation is a set of interrelationships between the stockholders, management and labor. Labor unions have become powerful as a countervailing force to the corporation. One of the char-

acteristics of the corporation is that ownership is divorced from control. When we speak of people in connection with the corporation, we generally mean that large group known as management.

Much has been said about corporate management and the "organization man" in the past few years. The corporation has been called the agent in creating a large, transient, national middle class. The main characteristic of this new middle class is that it has severed its traditional ties, its previous group loyalties and overlapping memberships. The corporation has filled the void; it has replaced the traditional middle-class community relationships with the corporate community with all its gimmicks for group belonging and social adjustment. This "corporate citizen" becomes "nonpolitical," at first, because he may feel political activity will lessen his chance for advancement in the corporate hierarchy; eventually this attitude becomes an aspect of his personality.

It is a well-known fact that corporations engage in political activity; either through trade associations or by themselves before committees, and through indirect financial assistance to candidates. The important question is: *Whom do they represent in their political activities?* Only in a very limited sense can they be said to represent the stockholders. Stockholders usually care little about the product which they hold stock in; indeed, they frequently hold stock in competing products.

The corporation does not represent management. The internal organization of the corporation is necessarily hierarchical–there is participation but there is no accountability. In fact, the corporation can be said to represent no one. As has often been suggested by the law in its definition of the corporation as a legal person, the corporation is an entity. Its dealings in politics are like those of a feudal baron, in that it represents only itself.

Programs and seminars

Recently there has been a lot of furor over the increased political activities of the giant corporations. Four or five of the giants have inaugurated political training programs for their top management. Spokesmen for the corporations claim that the aim is to create a better political "business climate," to act as a countervailing power to the political activities of labor.

These corporation-sponsored political training programs and seminars are designed to encourage executives to take an active part in partisan politics on all levels. Although most corporations would deny that their pro-

grams are partisan, or that a line is handed down, it seems that certain conflicts are bound to arise. It is hard to believe that any company executive running for office would be able to take a stand against that of the corporation.

The advantage of such programs is that partisan activity is restored to this new, management, middle class. The initial disadvantage is that the programs themselves are handed down from above–and it seems likely that the political content will come with it.

It is difficult to avoid the conclusion that there are dangers to the multigroup character of our society from the giant organization. One of the main demands of a free society is that its citizenry is not constantly and completely political. At any given moment, there are bound to be individuals who are unrepresented by an organized interest. The point about our system of representation is that the individual is represented as an individual. The unorganized of the moment *are* discriminated against by the giant organized interests. Of course, if the discrimination of an organized interest is real and lasting, the unorganized are free to organize a countervailing interest group.

To do this is admittedly difficult and costly. But ultimately, the only alternative to the citizen who feels he is unrepresented–as consumer, or otherwise–in the legislative halls of nation or state is to take a deeper and more personal interest in politics. By becoming involved in political activity–by assuming a party identification and by direct political involvement that goes beyond the often-neglected right of franchise on election day–he will have a greater voice in the making of policy. For the political parties, if not always on the local level, do represent, and far more than we sometimes think, the rights of all the people. ■

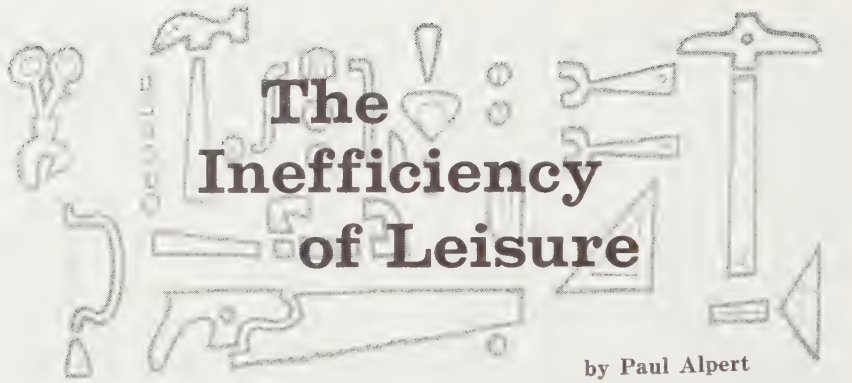
Supermarket Salesmanship Round the World

North Carolina: a store offers deeds to one square foot of Alaska with every grocery purchase of 10 dollars or more.

Chicago: a market manager has introduced canned electric clocks and expects to sell packaged lumber in the near future.

Copenhagen: soothing music for daytime customers changes to march time one half-hour before closing in order to hurry shoppers to the cashier's booth.

Frankfort: an off-the-corridor film room, stocked with Hollywood westerns has been set up for troublesome youngsters.



The Inefficiency of Leisure

by Paul Alpert

Modern technology has placed more time on our hands–and released creative energies for old-fashioned chores

■ I SHOULD like to discuss a strange but little understood paradox of life in postwar America. The paradox, which I am sure has been observed by suburban husbands returning to the ease of air-conditioned offices after a backbreaking weekend of do-it-yourself projects, is this. Increased productivity has enabled us to enjoy more leisure (and more real income to enjoy that leisure with); but it has also led us to spend a greater portion of that leisure doing the sort of things that, before the age of specialization and technological advance, most men had to do for themselves out of necessity. While our factories, farms and offices are becoming increasingly specialized and efficient, the job of keeping our homes in repair is becoming less specialized and is perhaps also becoming less efficient.

But for that reason, it is also probably more enjoyable. For many Americans the opportunity (often the financial necessity) to "do-it-yourself" provides welcome relief, both from the tedium of specialized jobs whose over-all economic function is often hazy and of passive entertainments that give little scope for individual creativity. With the family unit again becoming a producer as well as a consumer, Americans are probably reaping most of the social advantages of their personal "subsistence economies" while paying few of the costs of economic inefficiency.

There is every reason to believe that this kind of self-servicing in the home will become an increasingly important aspect of the

"American way of life" in the years to come. For one thing, a further reduction in the average work week during the next two decades is practically certain–barring war or depression. A half century ago, a 48-hour week still seemed a rather remote goal of social reformers. Indeed, that goal was not achieved in the United States until the 1927 New York State law set a national pattern. But the 40-hour week, which first became common during the less-than-full-production Depression and New Deal eras, proved workable even during the prosperous and booming postwar years. Since then, there have been further reductions, and today most office workers and many industries (such as mining, for example) enjoy an effective 35-hour work week.

Automation will bring new and substantial reductions in working hours; the tendency of some unions to counter renewed fears of technological unemployment with "share the work" proposals will strengthen this trend. Two of our strongest industrial unions, the United Automobile Workers and the United Steelworkers, have already formulated demands for a 30-hour week, and while these demands could not be pressed during a period of recession, there is every reason to believe that with the return to prosperity they will sooner or later be reiterated. A six-hour workday and a four-day, 24-hour working week can no longer be regarded as an extremely remote prospect.

Many thoughtful persons–often including the prospective beneficiaries–view this new leisure with considerable misgivings. Social theorists are, of course, chiefly concerned with the impact of habits of leisure on our capacity for the kind of hard work upon which our living standards have historically depended–and will continue to depend. Will the new leisure convert us from a nation of "doers," with a zest for action, into a nation of passive drones so bored with life that we shall need constant "stimulation" from our environment? More than one social analyst has drawn fearful analogies between our craze for being amused and the bread-and-circuses anesthesia of the late Roman Empire. The wide sale of books purporting to show readers how to use their leisure "meaningfully" (how to be happy while *not* working) indicates that many people share the concern of the social theorists. But these gloomy outlooks ignore an important fact. The very same trends which have produced our new leisure have

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also created new work for its beneficiaries. The Roman middle class, such as it was, did not have a servant problem, and no Roman patrician would have dreamed of fixing his own plumbing. The American middle class is practically servantless, and sheer economic necessity (in the form of steadily rising service costs) is forcing it to do much more complicated things than plumbing for themselves.

Nation of homeowners

How did this situation come about? The very same productivity that gave us more leisure and higher living standards has also transformed the United States into a nation of homeowners living in widely dispersed suburbs. Census figures for 1890 show that 47.8 per cent of all dwellings were occupied by their owners. During the next 50 years, the relative number of homeowners actually declined. The boom in homeowning began during the Forties and has been going strong ever since. By 1950 (when the last Census was held) 55 per cent of all dwellings were owned by their occupants. The social implications of this trend are, of course, many. But one of them is clear: many of those now enjoying the new leisure are already, or will soon be, homeowners. However, they are, or will be, homeowners who cannot afford the high cost of belonging to the old-fashioned kind of "leisure classes."

For this is a new class of homeowner. Increasingly, he lives in the expanding suburbias that circle our cities in ever-widening arcs. It has been estimated that more than half our population will be living in suburbs by 1965; already some cities and most rural areas are losing their relative share of the population, and in some cities, such as New York, the decline appears to be absolute. While some planners continue to dream of a renaissance of the American city, current trends point in the opposite direction.

Life in the suburbs for the majority of homeowners bears little relation to the life of an 18th-century squire to which homeowning today has at times been nostalgically compared. The days when homeownership was the privilege of a small upper-class minority, and when the home could be maintained by a retinue of butlers, housemaids, janitors, handymen, etc., are gone forever. For the same rise in living standards, which has enabled an increasing proportion of the population to afford suburban homeownership, has also raised the general wage level and, consequently, the cost of "maintenance" services. Today such services (even on a part-time basis are way

out of reach of the majority of homeowners.

Statistics show that costs of services are increasing much more rapidly than the cost of living. Between 1952 and 1957 the Bureau of Labor Statistics' overall consumer price index rose 6.7 per cent; but the cost of services increased by some 16.4 per cent. And the increase has been even higher for those services that are of special interest to homeowners: 29 per cent for reshingling a roof, 28.8 per cent for repainting a room, 37.7 per cent for repainting a garage. It is hardly surprising that service bills represent one kind of "conspicuous consumption" which the suburban homeowner is no longer willing or able to underwrite.

Buying for social status

As a result, a great portion of leisure time is no longer spent at the traditional kinds of leisure activity condemned by social theorists. In spite of all the gadgets at her command, the suburban housewife probably has much less leisure at her disposal than an 18th-century squire's wife.

As for "conspicuous consumption"–buying for social status rather than economic satisfaction–this is, of course, an important aspect of middle-class suburban life. But increasingly it has to be balanced by relatively nonconspicuous production. If houses, cars and television sets are sometimes bought for "conspicuous" reasons, caring for these things involves a lot of work for the whole family.

For the economic theorist, this leisure production (which is still peculiar to the United States, but which already shows signs of spreading to other industrialized Western countries) presents a number of interesting puzzles. Contrary to our general experience with economic progress, this development marks a transfer of labor man-hours from highly efficient work in a centralized productive organization (factory, office, shop, etc.) to decentralized handicraft work which, even with modern power tools, is much less efficient and productive.

There is another, even more curious paradox. Work undertaken as a substitute for income expenditures reintroduces an element of subsistence economy (at the expense of money economy) into the life of the suburban family. As in the ancient days of the hoe, the family household is again becoming, to some extent at least, a unit of production as well as of consumption.

But it is the social consequences of this return to subsistence economy in the home that are most interesting. Some people may re-

gret our apparent inability to escape a "vicious cycle of work," whether in the factory or in the home. I do not believe this cycle need be vicious; indeed, if intelligently used, this opportunity to work directly with and for the family may release creative energies that are frequently blocked in the highly specialized and impersonal production machine the individual works for. Even more important, this trend may serve to counteract the disintegration of family life, rightly regarded as a major cause of juvenile delinquency. While most aspects of modern civilization seem to favor this disintegration, the necessity to work in the home may give family members a much-needed opportunity to see each other again in an environment that demands cooperation and mutual respect.

Of course, it is important not to overemphasize the significance of what is happening. Not all "do-it-yourself" activity is stimulating or creative; much of it is tedious labor. For most people there is little satisfaction to be gained (apart from saving on plumbing bills) from repairing a leaky faucet, and only children enjoy shoveling snow. Many household gadgets, while eliminating the tedium of repetitive and mechanical labor, also eliminate the creative element. The vast "do-it-yourself" industry that is springing up to meet the new needs of the suburbia may be indirectly contributing to the "mechanization" of home production. Learning how to put pole A into beam B at point X does not require a great deal of creative imagination.

But when all these necessary qualifications have been made, the movement toward a sort of subsistence economy in the home offers tremendous possibilities for a richer and more creative life. And many of the activities forced upon suburban homeowners *are* creative. Take gardening, which, according to a recent market survey, is a part-time occupation of some 18 million Americans. Saving on bills is probably only a minor reason for this boom; most of the amateur gardeners feel genuine pride in their work. Similarly, the growth of hobbies such as carpentry, ceramics, etc., intended to beautify the home, may contribute directly to the development of more individual tastes and thereby relieve the monotony of much suburban architecture.

Thus the Industrial Revolution may in reality have enabled man to escape not only the necessity of earning his bread by the sweat of his brow, but also the dehumanization of his soul that so many artists and moral philosophers have believed to be the unavoidable price of this escape. ■

portable PENSION *plans*

The growth of private pension programs requires a new element of planning in the lives of many wage earners

by Henry W. Steinhaus

■ IF THE United States was dynamic in economic and technological development, it was correspondingly slow in the area of economic security. Our Social Security Act of 1935 came many years after other countries had established their social insurance systems. We are now in the process of extending the element of security, both in the public and private fields.

Private pension plans now have assets of 35 billion dollars, and they are adding to them at a rate of five billions a year. This total does not include individual retirement insurance or such public retirement plans as the Railroad Retirement Act, with assets of 25 billion dollars. What effects will this improved security have on the traditional mobility of the American? What other effects will it have on the character of our economy?

We can expect a continuing growth of the pension movement. The depression gave the original impetus, and the social security system was the major response. Social security itself encouraged the next step because it made possible other retirement plans at reasonable cost. With the government fund providing basic protection, private plans can add sufficient income to assure a more adequate standard of living for the retired wage earner.

The wage freeze of World War II directed more interest toward pensions because wage demands were replaced by a drive for fringe benefits. This received legal sanction in 1949 when the Supreme Court ruled that pensions were properly subject to

collective bargaining; the unions have been asking for bigger and better pensions ever since.

Increases in both personal and corporate income taxes were another factor in pension growth. The taxes placed a premium on deferred compensation, which is deductable as business expense and not taxable as income until the retired worker begins receiving his pension–a time when his tax situation is more favorable. Under excess profit rates, corporations in the 90-per-cent bracket could provide pensions at a cost of 10 cents on the dollar. Individuals get double advantage in the pension plans; the income they receive gets tax advantages, and the earnings of the retirement trusts themselves are also tax free, thus increasing the size of the benefits.

Forces of growth

Since there is no indication that income tax rates will be reduced, we can expect that the forces encouraging pension growth will continue undiminished. The size of the various pension funds will also increase because the funds will long remain in the position of taking in more than they pay out.

How does a pension equity affect the decision of a worker who would like to take a new job? How important to him is the loss of this potential income?

Marion B. Folsom, formerly Secretary for Health, Education and Welfare, last year urged that private pension plans "should include better provisions for transfer of the worker's equity when he changes jobs." Labor Secretary James P. Mitchell had a survey made on the effect of pension plans on labor mobility, but the results were inconclusive. The survey did show lower labor turnover in firms that had pension plans compared with firms that had none, but the same study also showed that big companies had less turnover than the smaller ones. Thus, other factors besides pension equities could have greater effect on labor mobility.

The loss of seniority rights under labor contracts seems to be more important in holding workers to their jobs than, as one observer put it, "a long-range and somewhat speculative interest in a pension benefit." Furthermore, the individual must stay at one job for at least 10 years in order to accumulate substantial pension rights. A new job that it attractive enough to encourage a man to switch employers will usually include among its attractions a pay increase that will make good the pension loss.

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Nevertheless, many others are taking up Folsom's demand for portability in pensions. As pension plans become more widespread, the chances of rigidity in the labor market and unfairness to the individual become enhanced. Other countries have pioneered in portable pensions. A Dutch worker's pension becomes transferable after five years, and Norway provides for a similar arrangement. But the situation is simpler in those small countries, and the dynamism of our economy makes for more problems.

Element of portability

The element of portability, called "vesting," costs money. If a given proportion of the pension fund is lost as workers take their pension rights with them when they move, then more money must be contributed to provide for those who stay. Pension costs will increase by 15 to 25 per cent if contributions are vested after 10 years. If vesting began earlier, say after five years, the costs would be much heavier, since labor turnover is greatest in the early employment years and because of the administrative costs of handling many small sums.

The increased costs are not, however, a prohibitive factor when the waiting period is at least 10 years. This can be seen in the results of a recent survey in New York State. Of 643 plans studied, 279 were found to provide for full or partial vesting after a number of employment years or at a certain age, or under a formula for a combination of age and service. Solutions, present and future, will be compromises between the disadvantages of rigidity and unfairness without transferability, and increased costs with vesting provisions.

Pensions are having indirect effects on the economy, and this will become more important as the funds grow. Pensions are a form of saving, and the individual is likely to spend his cash more freely if he knows he will have a regular income in his old age. The result would be greater stability in consumer spending, since spending would tend to fluctuate less violently with temporary income changes.

Pension funds also represent a new force in the capital market. Money which formerly found its way into the economy directly through the banking system or the investment field is now being fed into great retirement trusts. The managers of these funds have considerable bargaining leverage because of the great sums they have at their disposal for investment. It is conceivable that the pension trustees could force

interest rates below the levels determined by current actuarial assumptions. Fund managers might also go into the stock market to such effect that they could gain substantial control of industry.

In any case, pension funds represent a concentration of formerly dispersed monies. They thus mean an increased institutionalization in an investment area that was formerly subject to the classic workings of supply and demand. Properly guided they can act as another factor for stability in the economy.

The character of pensions is bound to change as they become more general and as national growth continues. The attitudes of pension recipients, now so vague as to be often indefinable, will be sharpened as pensions become more important to them. Many workers fail to take account of pensions in their planning. Many give up long-range advantages for immediate benefits of a minor nature. Thus, there are plans that permit the workers to withdraw their contributions, provided, of course, they forfeit their pension rights and the employer's contribution. As late as the age of 45, 75 per cent of the participants in such plans withdraw.

The movement toward more portable pensions will become stronger, particularly in regard to older workers. There are already many plans that provide for vesting after 15 or 20 years of service and at ages of 50 or 55. The eventual tendency will be toward the reduction of service years and eligibility ages.

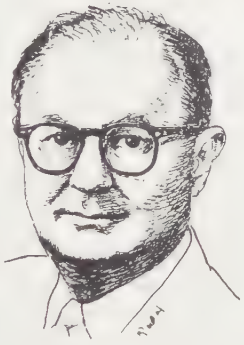
Vesting will become easier and less costly as the pension plans become more widespread. If all employees had portable pensions, the loss of one worker with vesting rights would be balanced by the hiring of a new worker who brought his pension with him from his last place of employment. This, however, is the distant eventuality, and many steps will be required to reach it. One step could be industry-wide vesting plans, which are much more easily feasible because all the firms in a given industry exist under roughly similar economic conditions.

Fears that pensions will significantly reduce labor mobility appear to be unjustified because of the consistent changes that are taking place. The fears, however, are serving a useful purpose by encouraging the extension of vesting rights. Pensions act in the economy as part of a general movement toward greater complexity and sophistication in our institutions. The new power they give will be useful in the general management of our economy, provided it is applied with statesmanship. ■

Challenge Profile

Congressman Wright Patman—Big Business Competitor

■ ECONOMISTS from Adam Smith to Lord Keynes have achieved their great theories by maneuvering immaculate abstractions or cleanly outlined macroquantities. Like the mathematician, the economist seeks an elegance that furnishes an esthetic confirmation of his postulates. He is inclined to be impatient with the asymetrical demands of the small citizen.



Congressman Wright Patman (D.-Tex.) has made a career of unabashed inelegance. The little man as veteran, retailer and small manufacturer has remained his concern. If Patman's theoretical premises prefer to ignore the large necessities of economic efficiency, his instincts respond to other needs that are not to be denigrated because they are political.

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

In Congress for the last 30 of his 65 years, Patman represents the frontier and populist tradition with its distrust of Eastern finance and big business. A sweeping generalization of his ideas would doubtless cause damage to our economy, but our nation also draws strength from individualism that the corporation-dominated areas do not encourage. The danger is not that populism will prevail; the real peril is that it will disappear completely.

In the 1930s, Patman investigated unfair practices of chain stores and showed that one major organization was forcing its suppliers to give it special discounts totaling six million dollars a year. With the late Sen. Joseph Robinson (D.-Ark.), he wrote the Robinson-Patman Act, which gave the Federal Trade Commission the power to stop such unearned privileges. Not content with the

Act's limited effectiveness, Patman approvingly watched 23 states impose special taxes on chain stores. He then sponsored his own bill, which would have taxed chain stores on a scale that would have risen steeply for each additional store unit. The chains fought for their lives, and the bill failed.

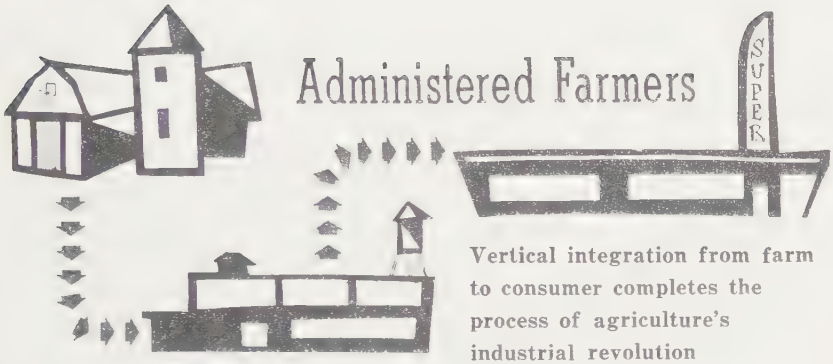
The insensate appetite of World War II for vast quantities of material interrupted the Patman elan; bigness seemed the reasonable approach to a big war. Patman shifted from retailers to small manufacturers and persuaded Congress to pass the Smaller War Plants Corporation Act in 1942, which guaranteed government assistance to smaller defense firms. But the main current, favored by procurement officers, was inexorable, and big business emerged from the war with a prestige that matched its size.

After the war, Patman launched himself on a broader economic front and became co-author of the Employment Act of 1946. While claiming no taste for theory, Patman could appreciate the implications of Keynesian thinking in terms of full employment and the little man.

Patman did not, however, neglect the problems of detail, and many of his ideas on easy credit and special terms for veterans went into the Veterans Emergency Act of 1946. He responded to the 1949 recession by demanding larger appropriations for the Fair Trade Commission so that it could more vigorously investigate violators of the fair trade codes. The FTC itself, struggling with the difficulties of defining guilt in so vague and vast an area of business practices, was hardly grateful for such assistance to its budget. During the past Congressional session, Patman's efforts for the small businessman took form in legislation granting easier credit terms and tax write-offs.

Patman has been rewarded for his seniority and long tactical service with the strategic chairmanship of the Joint Committee on the Economic Report. From that position he has delivered strong criticism of the Federal Reserve Board's anti-inflationary policies. His distrust of Eastern finance continues staunch despite contact with the sophisticated theories and theorists of Washington. He blamed the FRB's tight-money policy for ending the 1956 building boom and said frankly that inflation was worth the risk if it promoted social progress and full employment. If such ideas are upsetting to most economists, Patman is forcing them to think harder about the great policies that extend their sometimes uncomfortable effects to the small man.–L.B.

Administered Farmers



Vertical integration from farm to consumer completes the process of agriculture's industrial revolution

by Dick Bruner

■ VERTICAL INTEGRATION has been a significant industrial phenomenon. A precise example is the automobile manufacturer who sets operation standards for both parts suppliers and distributors. But the principle of unitary control of all phases of production, processing and distribution is now being massively applied to the American farm. Allowances can be made for the ways of nature and, more frequently, nature can be maneuvered into docile cooperation. The conflict between the consumer who eats every day and the seasonal processes of growth is being resolved in favor of the regular appetite.

All cannery vegetables, sugar cane, seed crops and sugar beets are now produced on a contract basis in the United States. The broiler industry–the term is indicative–is 90 per cent integrated, and the poultry farmer without a contract is virtually shut out of business. Cattle are being integrated in two competing unitary systems: one-third of the major meat packers and 40 per cent of the feed companies have arrangements with cattle producers or feeders. One-fourth of American mutton is produced through contract arrangements; and while pork integration is still under 10 per cent, two-thirds of the larger packing firms have plans for extending it.

The career of J. D. Jewell, a Georgia feed dealer, traces a widely imitated line of development. Jewell discovered that he had to finance feed costs and help with the marketing in order to continue selling his feed to poultry farmers. He used his own credit for their operations, loaded his truck with their chickens and drove the birds to market.

Refinements and additional fa-

cilities were inevitably added, and today Jewell owns the chickens–from embryo to sales package. The farmer contributes land, buildings and labor; Jewell does everything else. His breeding flocks produce eggs; his incubators hatch them; and farmers then take over the chicks, which they fatten with Jewell feed. After the farmer raises the birds to marketable maturity, Jewell's firm reclaims them and puts them through one of several processes. They can be plucked and cleaned for the housewife who will carry on from there; they can be cooked, breaded, frozen and packaged as precooked dinners; others can be converted into frozen chicken pies.

Standardized chickens

The Jewell technique is particularly appropriate to the requirements of supermarket merchandizing, which wants standardized products that match supply with the household demand curve. Thus a Chicago supermarket calculates how many broilers it will need for the weekend business and places an order for chickens that will be processed in Bentonville, Arkansas, the previous Monday or Tuesday. The broilers are ready for sale in Chicago by Thursday.

This supply of high-quality fowl has actually created a new demand. The annual production of broilers rose from 34 million in 1934 to 1.3 billion in 1956, a 35-fold increase. Poultry has risen to second place in meat sales, just behind beef. The housewife is buying more chickens because superior feeding makes them meatier and because mass-production economies permit them to be relatively cheaper than they had been in the past. Moreover, she can buy as many as she wants at any time of the year.

Pork producers, who have been losing business to the producers of competitive meats, are drawing useful lessons. Pork quality control is becoming more important as weight-conscious consumers reduce fats in their diet. They want their pork chops without the thick rind of fat characteristic of hogs fed on slops, and the packers would more easily oblige them if they could establish precise specifications for hog raising.

The ability of the poultry producers to eliminate the seasonal element from their operations is another forceful argument. Hog marketing is largely seasonal. Peak flows from farm to slaughterhouse occur in the spring and fall, because the overwhelming majority of farmers breed and farrow their sows only twice a year. The result is that the processors must maintain expensive

Dick Bruner, special events writer for National Broadcasting Co., has covered many aspects of economics.

storage programs to meet the nonseasonal consumer demand. But hogs will breed at any time of the year, and integrators already operating in the hog business have introduced the more economic multiple-farrowing system to their swine herds.

Cudahy of Omaha, Hunter of St. Louis and the Mauer-Neuer Packing Co. of Kansas City are cooperating with a feed company in such an integrated operation. The farmers are required to breed the sows every two months and to feed their herds under a formula determined by the feeder and packers. A premium for "meat-type" hogs is the incentive for using the high-quality formula.

Prosperous independence

Midwestern farmers, with their history of more or less prosperous independence, are unhappy about integration possibilities. They can observe with foreboding what is happening in Tennessee, where marginal farmers are getting out of unrewarding cotton and peanut farming and into hog-raising contracts. These poorer farmers, never possessing sufficient capital to enjoy their independence, are content with arrangements that include financing and guaranteed markets. The Midwesterners, however, feel that contract operations would reduce them to the level of assembly line workers.

Indeed, one of the effects of integration has been that conservative farm leaders are talking today about the need for "negotiations" and "collective bargaining" between farmers and the buyers of their products. Some farmers have been asking for organizational help from established industrial unions with two objectives: government price supports and the development of a bargaining organization to deal with the buyers.

These manifestations are of a preliminary nature and lack precise definition. Thus the local offices of the United Packinghouse Workers of America (AFL-CIO) in Iowa, Nebraska, Missouri and Illinois were petitioned repeatedly in late 1955 and 1956. Farmers were asking for help during the decline of hog prices to postwar lows. Others besought the United Automoblie Workers, which sent representatives to meetings of the radical National Farmers Organization. Most of the speeches, however, vaguely called for joint farmer-labor efforts at the polls. The UAW loaned the UFO several thousand dollars for organizing purposes, but the investment has borne imperceptible fruit.

Emphasis on efficiency

With its emphasis on efficiency, integration fits conveniently into the general complex of farming

changes occurring today. The trend is toward larger farms and fewer farms and farmers. The farm bloc has already lost significantly in political strength. Some observers believe that the government will intervene to help farmers set up bargaining organizations to deal with the processors. But other experts think that integration and other new developments will take the government out of price support policy entirely. Whether there will be more or less government regulation of marketing structure, the observers are agreed that integration will have revolutionary effects that extend to retail marketing.

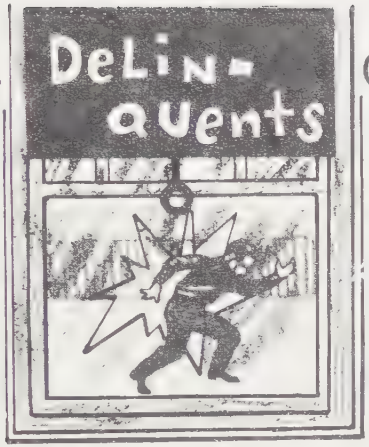
A recent American Bankers Association meeting heard a speaker prophesy the day when the farmers would grow chiefly to fill specific orders placed under long-term contracts with giant retailing organizations. He said that such foods would by-pass the national brand food manufacturers and go directly to private brand labels controlled by the retail chains. Dr. George Mehren, University of California agricultural economist, predicts that by 1960 more than 90 per cent of all meat and groceries will be sold by food chains powerful enough to make their own pricing structure for the products they sell.

Important changes are already eliminating the need for the formerly indispensable middlemen in the farm-to-consumer process. More than half of the hogs and cattle going to the slaughterhouse do not go through the central stockyards. The brokers and commission agents who channel livestock through the terminal markets have thus lost half of their business and will lose all of it under vertical integration.

Provisional figures

The figures giving the present state of integration are highly provisional. We can be sure that rapid changes will alter the proportions tomorrow before we have had time properly to consider the significance of what is happening today. The integration of 80 per cent of the liquid milk sold in the Chicago area indicates new physical extensions; the insistence of egg distributors that farmers become big egg producers for the sake of efficiency or get out of business entirely is possibly a harsher sign of a change in character. The machine has long established its place on the American farm. The new changes springing from integration are the results less of machines than of the administrative character of the Industrial Revolution; the effects nonetheless may mean the final industrialization of the farm. ■

what DELINQUENTS can teach us



Juvenile problems reflect the aspirations and failures of our society

by Herbert A. Bloch

■ A HALF MILLION boys and girls in the 10- to 17-year age group go before our courts annually. These youthful law violators represent 2.2 per cent of their 20.5 million contemporaries, a proportion that develops even deeper shadows in a historical perspective. The courts dealt with 190,000 young offenders in 1940. While our juvenile population increased by less than eight per cent, the volume of delinquency cases handled by our courts has more than doubled since 1940.

Contrary to appearances, the offenses are rarely the homocides, sexual assaults and public drunkenness with which the press arouses and enthralls the public. The reality is duller and even more dangerous. Most of the crimes are property thefts and vandalism, classic crimes of mature lawbreakers. The offenses are thus not simply youthful disorders, serious enough as they are, but belong to a pattern that can be professionalized into a continuing assault on society as the delinquents grow up.

While economically privileged youths have too often broken the law, the serious types of habitual delinquency are concentrated among depressed economic groups living in urban slums. The communities, moreover, are less capable than they were in the past to contain and resolve youthful misbehavior. The result is a new area of anarchy which some observers have called a distinctive "subculture" within depressed areas. This does not mean that poverty and slum conditions produce crime of themselves. The problem is far more complex, a fact emphasized when we observe poverty-stricken areas here and abroad which do

not automatically abound in crime.

The crime subculture is a remarkable inversion of the middle-class world that most of us inhabit. Many of the attributes which we accept as part of the American way of life are remote from the juvenile delinquents, a fact that is bitterly acted out by gang members. Dramatic tension and irony are added by the contact of these juveniles with normal mores through school and church; they know what the conventions are, and they reject them.

Gang membership outweighs all other considerations and social values. While all adolescents like to form groups characterized by fanatical loyalty, the delinquents are unique in their desire to remove their gangs from any form of adult control. Even more indicative is the fact that their predatory acts vary significantly from ordinary types of criminal activity. The basic quality of such gang behavior is its purposelessness.

"Short-run hedonism"

This is not crime for personal gain; it is crime, in the words of the gang boy, "just for the hell of it." The delinquents steal clothes they cannot wear, toys they do not bother to play with, and candy which they barely taste and throw away. It becomes a "short-run hedonism" that takes it's pleasure not so much from the fruits of the crime as from the approbation of the other gang members.

Another striking element of such behavior is the malicious delight of the offenders in upsetting middle-class standards. They commit vandalism often for no other purpose than to embarrass the custodians of conventional morality. They react to "good children" with an active spite and ridicule, barring them, for example, from public playgrounds while not using the facilities themselves.

These juvenile rebels learn their action patterns at home, and their homes exist by standards sharply different from those of the middle class. The discipline based on saving money, planning and paying bills on the due date is absent. Money is casually shared and spent when it is received; bills are paid, if they can be paid, when the landlord threatens eviction or the electricity is shut off. In such homes, brutally defined as "marginal," food is gorged and all the lights are left furiously burning—as long as there is food and electricity. Tomorrow never intrudes by anticipation.

The youthful member of such a family is acutely aware of the distance between its standards and those of the dominant middle

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class. He feels that he can never attain these foreign habits and responds by creating a delinquent subculture, where prestige is based on negating conventional prestige symbols.

How did this social cleavage originate? It is a fact that the highest crime and delinquency rates are associated with immigrant groups of recent arrival. This is no reflection on any specific group: northern Europeans like the Germans and Scandinavians, now regarded as stable, contributed heavily to integration problems at one time.

Native born "immigrants"

Today the "new immigrant" is the native Negro citizen from the rural South, the Puerto Rican and the Mexican paisano. It is not the foreign-born child who becomes the problem, but the native-born child, of "alien" parents, who falls between two cultures and reacts destructively. Today Negro, Puerto Rican and Mexican children are in court at a rate four or five times that of other native-born children. There is little doubt that this rate will fall as the groups become assimilated. Indeed, we can observe an almost compulsive lawabidingness in those Negro families that have attained middle-class status.

Statistics are not an accurate measure of the problem. A recent study showed that proportionately more Negroes were appearing in court for given offenses simply because there was a lack of private agencies to deal with them. Furthermore, different regions have different definitions of crimes. Thus, much of our delinquency data is a description of the traffic volume in selected children's courts, and not an accurate record of the extent of juvenile misbehavior. Nevertheless, the instances of overt criminality and the half million juvenile court cases annually are real and damaging enough.

What is to be done? It is obvious that neither the "get tough" policy nor an elementary type of recreational therapy will cure disorders arising out of such basic inadequacies. It costs 10 to 20 thousand dollars per child to build a reform institution and 1,800 to 3,000 dollars annually, exclusive of depreciation and maintenance charges, to care for each child. The results are as uninspiring as the costs. Nevertheless, more such institutions must be built in order to deal with pressing cases, while we seek better ways of handling the problem. Dangerous delinquents are being turned loose because of lack of space.

The problem must be met on the broadest philosophic terms, as suggested by the clash of standards in the delinquents' lives, and in the most detailed administrative

manner, as indicated by specific material deficiencies and disordered family life. The delinquent frequently has no bed, study place or playground he can call his own.

Recent urban studies show that the problem of serious delinquency is concentrated in less than two per cent of the families. These hard-core families thus require intensive attention and assistance, implying a reversal of past welfare techniques and some of the democratic philosophy behind them. The casework should become "aggressive" and seek out the families, rather than hope vainly that they will recognize their situation and call for help. It would be then necessary to subject the families to a gamut that includes relief, medical care, unblinking law enforcement, and medical, vocational, housing, educational and religious support and guidance. If this sounds like absolute, if benign, social war, we must recognize that the problem is very nearly absolute in the hard-core family.

Allied with the family approach is the development of identification techniques in regard to the troubled or predelinquent child. Half of the habitual delinquents have recognizable behavior patterns by the time they are eight years old, and 90 per cent make themselves known by the age of 10. It is obvious that the family should be treated along with the child.

Special schools would be helpful. In any case, the children should be able to take part in all-day school activities, if their families fail to provide adequate home-life support. Older children should be given prevocational or vocational training or work experience.

It thus becomes a necessity to substitute inevitably clumsy administrative techniques for functions that the effective family performs so naturally. But some families fail in such simple matters as feeding and clothing their children. The objective would be to return a restored child to a restored family, an ideal that begs a certain amount of faith.

Destructive derision

The problem of delinquency implies a severe questioning of American values. We can expect that the socially deprived will respond to discrimination by rebelling. It behooves middle-class society to become more hospitable to the inconvenient late entrants. In any case, we might play down self-praise on the subject of equality; the delinquent reacts with destructive derision.

The prospects, however, are not as gloomy as the intense study of the worst problems would suggest. The integration of earlier immigrant groups suggests that time

will be of important assistance. We might look upon juvenile delinquency as a phenomenon that is partially, at least, explained by the fact that the United States is trying to do so much more than most nations. We have received successive waves of immigration, and it was inevitable that not everything would go smoothly. Part of the tension is explained by the fact that the immigrants are being encouraged to take more responsible roles in our society than those bottom-of-the-pyramid functions they had in their old homes.

American life does have a remarkably stabilizing quality despite the explosive changes. High earning levels and mobility help wear down class and ethnic disparities. The enormous influx into the suburban areas, while not eradicating delinquency and other social problems, tends to speed up the assimilation of all groups. We may have to pay the price in greater conformity, but many ills will be alleviated in the process.

If we can expect the healthy forces in American life to help achieve solutions, we cannot rest on merely permissive attitudes. The aggressive approach toward the hard-core family suggests the value of a more vigorous attitude toward all our American values. Delinquency speaks in the idiom of materialism, the theft of property, for example, even when it rebels against the materialistic symbols of American success.

If it is reasonable to condemn destruction for the sake of destruction, the characteristic of the American subculture, it does not necessarily follow that the middle-class culture rests on impeccable foundations. Is it not possible that we might accomplish not only a better integration but a better life for all Americans if we emphasized physical wealth less and moral values more? A nation that is united in beliefs would be less likely to be divided by material disparities. ■

Twofold Purpose

AN ARMY of conservation workers has been proposed to attack two national problems: juvenile delinquency and conservation of national resources. Many workers are needed to improve thousands of acres of public recreational lands. Legislation creating a 150,000 man Youth Conservation Corps composed of 17- to 23 year olds is expected to be introduced during the next Congressional session. The young men would serve for one year and earn good wages. The entire operation would be handled by the Department of Health, Education and Welfare. Unlike the Civilian Conservation Corps of the early 1930s, the YCC would not be handicapped by the "make work" stigma.

John W. Kendrick

Productivity Expert

Productivity, Progress and the Future

Q *Prof. Kendrick, according to your recent study of productivity trends for the National Bureau of Economic Research, what has been our average rate of productivity increase during the last 70 years?*

A If you define productivity as the relationship between the physical volume of output and the physical volume of all associated tangible inputs (labor, capital and natural resources), then you find that in the period since 1889 there has been one major acceleration in the rate of productivity in the private economy. This occurred about 1919. Between 1889 and 1919, productivity rose approximately 1.3 per cent a year, on average. Since 1919 the average rate of advance has been about 2.1 per cent a year.

Q *There has been no further increase in the rate of productivity advance since World War II?*

A There has not. While it is true that *output per man-hour* has increased a bit more than the over-all rate of productivity, this is due chiefly to a faster rate of increase in capital per man-hour since World War II, reflecting a higher rate of investment during the postwar period.

Q *As you know, there has been a great deal of talk lately about an impending productivity "breakthrough" as a result of automation, nuclear fuels and other technological innovations. Do you think that we are, in fact, on the threshold of such a "breakthrough"?*

A I believe that people are always more impressed by *recent* technological changes than by those which occurred in the past, although these may have been even more revolutionary at the time. The development of electric power and of the flow methods of production were relatively just as important then as automation is today. So I don't think that we can assume that these particular innovations will necessarily accelerate our rate of productivity advance. We will need a continuous succession of important innovations just to *maintain* our current rate of 2.1 per cent increase a year, let alone improve on this increase.

Q *What kind of innovations do you believe would materially increase our rate of productivity advance?*

A Any innovation which results in a saving of labor, capital or natural resources will contribute to productivity advance. While it is impossible to pinpoint the nature of future technological innovations, I believe that they will probably tend to be relatively more labor saving than capital saving since the price of labor has tended to rise relative to the price of capital. Also, since natural resources are limited, we can expect continued efforts to economize in their use.

Q *And this is where nuclear energy enters into the picture.*

A That is right. The development of nuclear energy is extremely important because petroleum resources are limited, and we need new energy sources that will eventually be cheaper than conventional fuels. Since one of the consequences of rising productivity has been the increasing use of mechanical energy per man-hour, the development of nuclear energy will remove what may become an important barrier in the way of future productivity advances.

Q *Still you are not overly optimistic about a dramatic breakthrough of the productivity barrier. Is this something we should be worried about? How do you evaluate a productivity increase of 2.1 per cent per annum in terms of our world position and in terms of our economic and social objectives?*

A An annual two-per-cent productivity increase, when sustained over a long period of time, is among the highest rates of increase in the world. While it is true that various other countries have exceeded this

rate in their recovery from the last war, it is not at all certain that they will be able to sustain such high rates in the future.

Q *Does this mean that we should be satisfied?*

A Certainly not. Productivity gains are the chief means we have for raising levels of living. Since there is every reason to believe that our wants will continue to outrun our production for a long time to come, the need for a continued increase in productivity is obvious. Productivity also gives us the means of increasing our existing and potential national security. We do not know precisely what the productivity rate of the U.S.S.R. is, but I think we can assume that the gains there are very substantial–possibly as high as our own, if not higher. Clearly, our national security is very closely related to our ability to maximize productivity advances.

Q *Is our current rate of reinvestment sufficient to sustain and increase our present rate of productivity advance?*

A I think the current rate of replacement is sufficient to *maintain* present rates of productivity gain, but faster replacement would also give us a faster rate of productivity. Even more important, an increase in net investment would mean a faster rate of capital formation, and this in turn would give us a faster rate of increase in real product.

Labor input has grown little in relation to population increase

Q *Dr. Kendrick, what is the connection between productivity and economic progress? Under what conditions will productivity contribute to economic progress, and under what conditions may the reverse occur?*

A Looking at the long-term trend since 1889, we find that productivity advances have contributed about one-half of the increase in our real national product. The other half was contributed by the increase in labor, capital and resource inputs. When you look at the real national product *per capita*, you find that productivity advances accounted for about three-fourths of this increase. The other fourth is accounted for largely by the increase of capital input. for labor input has grown little in relation to our population increase.

Q *Even so, is it possible for productivity to rise during periods of depression?*

A Sometimes it has fallen, and at other times it has risen, though usually at a slower rate. But at such times, inputs fall a great deal–less labor, capital and natural resources are employed–so that total national product falls, even while the ratio of output to input may increase. This points up the important fact that in order to realize the full benefits of productivity increases, we must provide for fairly full utilization of the nation's resources year in and year out.

Q *Can the long-run impact of depressions result in a reduction in our future rate of productivity advance?*

A I think so. During periods of depression the rate of capital formation drops drastically, and there is probably less expenditure on research and development. As a result, our technological advance in the *succeeding* period is probably a little less than it would otherwise be.

Q *What institutional framework is necessary for the attainment of a high rate of productivity?*

A I'm glad you asked this question. We often lose sight of essentials in these matters and forget the importance of basic social values and institutions in achieving productivity gains. Yet it is obvious that the rate of technological advance which productivity indexes reflect depends on the quantity and quality of resources devoted to innovation. But then one has to go deeper than that and ask why it is that a certain society will devote a relatively large proportion of its resources to technological progress and innovation. And this is where the importance of social values and institutions comes in. There has to be the desire for material advance, and there have to be the institutions which will facilitate and promote such advance.

Q *What are these institutions?*

A In our country we consider the institutions of private property, profit and competition as quite effective in rewarding the more efficient and penalizing the less efficient. I believe in these institutions, but it is possible that other types of systems can also be effective in providing adequate rewards and penalties to spur productivity.

Q *Most people regard productivity and efficiency as more or less the same thing. Are they?*

A A distinction should be made between economic and technological efficiency. Economic efficiency may be looked at as the capacity of the economy to satisfy the wants of consumers. Technological efficiency, on the other hand, refers only to the economy's ability to convert inputs into outputs in order to meet certain predetermined wants–no matter whose. An increase in economic efficiency would tend to show up in our productivity ratios just as would an increase in technological efficiency. But I don't believe that there has been too much change in our economic efficiency in the last half century. Most of the changes in the productivity ratio reflect technological factors–by which I mean not only innovations in the production process but also innovation in production-oriented social organization.

Rates of productivity increase can change

Q *Dr. Kendrick, when you say that you do not foresee a breakthrough of the productivity barrier within the near future, this presumably refers to general trends, not to specific segments of the economy. In what areas do you expect the greatest increases in productivity to occur during the next 25 years or so?*

A We know that in the past productivity has advanced at uneven rates in various sectors of the economy. Electric utilities, for example, have averaged productivity increases of well over five per cent a year. On the other hand, some industries, such as leather and leather products or anthracite coal, have shown productivity increases below one per cent a year. Moreover, rates of productivity increase can change. Until 1937, productivity in agriculture was increasing at an unspectacular rate; since then there has been marked improvement. Also, it appears that there has been some acceleration in the rate of productivity advance of the noncommodity producing segment of the economy-trade, services and finance. But without more precise information than I have at my disposal concerning current innovations, it is impossible to predict which industries will progress faster technologically. But I will hazard a guess that productivity advances will be faster in those manu-

facturing industries in which automation can play an important role. Also, I believe that there is tremendous scope for increasing efficiency in the operation of banks, insurance companies and brokerage houses through the installation of data processing systems.

Q *Dr. Kendrick, from what you say it is clear that you envision a tremendous growth in the productive capacity of most industrialized nations. What will be the impact of this heightened productive capacity upon the kind of lives we shall be leading?*

A Well, let me preface what I have to say with one important qualification. Even in the United States there are still important segments of the population who do not have the basic comforts of life—and this, of course, is even more true of the less developed countries. For many decades to come, increasing productivity and real product will continue to be one of our major concerns, if we are to secure the standards of living and the national security which we desire. However, in some happy far-off day when nations will have learned to live together in the world and our capacity to achieve comfortable living standards for all people will have been achieved, the increase of productive efficiency will perhaps appear less important. More attention will then be devoted to other types of interesting activity.

Q *Don't you think that increasing productive efficiency will remain one of those interesting activities?*

A Indeed I do. I can think of few more interesting things than organizing, running and promoting a successful business organization. This kind of work requires talents of the highest caliber. Similarly, many types of professional work associated with our productive effort are extremely interesting. While we can hope that less interesting kinds of productive activity will be replaced, creative, productive work will continue to challenge the imagination of able men and women. We shall continue to seek productive employment, even when we have reached that stage of affluence where it may no longer seem absolutely necessary.

Q *Thank you, Dr. Kendrick.* ■

climatic conditions

The nation's economic geography is so extended that it was enduring great variations of business climate. While some areas were still clouded over with recession remnants, other sectors were facing the problems of prosperity. Total production had made up most of the recession loss already, but employment was lagging somewhat behind. The Federal Reserve concentrated its efforts on anti-inflationary measures while industry was wondering what to do with its 30-per-cent unused capacity.

compression ratio

Unemployment was compressed close to the four- million figure by the beginning of autumn. A comparison with the scintillating production rise was reason for harder study but not blank pessimism. Residents of such industrial regions as the Pittsburgh and Detroit areas were understandably discontent over their heavy concentrations of unemployment, but they were promised improvements that impatience unfortunately could not accelerate. If the over-all excess capacity figures were still large, the steady increases in man-hours indicated that industry was getting more to do and would need more hands to fill its orders. The heat of the production recovery might melt the glacial element out of the slower upward movements in employment and capital spending.

collision assets

Production had increased nine per cent from April to August, against an increase in production workers of only one per cent. Industry extended man-hours in that period by three per cent, chiefly by lengthening the work week. Further production increases will collide with the factor of overtime costs and should take effect in terms of increased employment. The figures have another lesson; they show productivity increases that should prove valuable for the general economic health. Lagging productivity improvements during the boom had been a frictional factor that increased prices and consumer resistance, particularly in durable goods and more specifically in automobiles.

two-tone

It was unfortunate that the motor industry was still bearing the burdens of both past boom and passing recession. Cost inflation–as well as Detroit's estimate of consumer preference for pomp and power–raised the prices of 1959 models five per cent over last year's. If the automobile price-makers did not regard themselves as prisoners of costs and long-range production designing, they might be commended for their courage and optimism. However strong the relation between the American and his car, the economy was well advised to seek recovery strength in other sectors of consumer demand.

farms and fiscality

The farmers' net income was at an annual rate of 12.5 billion dollars in the third quarter of this year, 15 per cent above the same period in 1957. Their income in the first nine months of 1958 was a vigorous 19 per cent more than the 1957 period. Farm prosperity had less engaging aspects for the taxpayers. Wheat and feed crop price supports would cost an estimated 6.4 billion dollars in the present fiscal year, up 1.9 billions over the past year.

money markets

Inflation was taking on prominent outlines in the securities and money markets. Stocks were ignoring yield ratios to climb to new altitudes, while direct

loans by banks and brokers for securities rose by 20 per cent in the first half of 1958. Indeed, the demand for high-grade stocks was so great that bond yields were exceeding stock returns. The money market, with demand running high, was as tight as it had been during the last boom.

Treasury report

The Treasury was a major victim of Washington's efforts to control the inflationary aspects of the recovery. It has given up its hopes of long-term debt financing, settling for such stopgaps as a 219-day special bill due next spring. Investors are not willing to freeze their funds, with the result that the Treasury must continually return to the money market at increasingly disadvantageous terms.

phase factors

The first phase of the recovery was over; the housing boom and government spending had taken effect and the economy was now rising on additional buoyant factors. Economists were predicting a new national production record before the year's end.

* * *

inflation again

WASHINGTON—The recent increase in margin requirements for stock purchases is the first step in a series of credit restrictions to be announced by the Federal Reserve during the next four months. Inflationary pressures have become the top economic subject of discussion in Washington. Economic recovery has been much faster than even the optimists had foreseen. Businessmen are in an expansive mood again, and the consumer never did lose heart; so the total effect will soon be one of straining credit facilities to the limit. The unemployment picture, still a bit cloudy, should be entirely cleared up by March. Higher down payments on new homes will be required by February, and other consumer credit restrictions will be made. By spring the deficit in the federal budget will be obvious to all, and the size of that budget for fiscal

1959-60, coming on top of a developing boom, will really have the inflation pot boiling.

the status is quo

As of this writing, the international situation remains a vast and frustrating study in status quo. The immediate crises have simmered down, but the basic reasons for such crises remain. The withdrawal of troops from Lebanon does not mean that real trouble will not erupt again. Arab nationalism is only waiting to digest what it has gobbled up before starting another disruptive round. American commitments to Jordan are constantly increasing as the British withdraw, and this will permit the Russians to continue in their role of defenders of Arab nationalism. Nothing has been settled in the area except the decision on all sides to take a breather. American policy has put its hope in the United Nations and international economic organizations to induce the Arab countries to concentrate on peaceful economic development. This hope will be realized for the next year or two, but the long run is another matter.

prospects in Asia

The stalemate in the Far East proves two things: Red China cannot take what it wants by force, and the United States cannot settle the China problem unless and until Red China is allowed to become a member of the official family of nations. The irresistible force has met the immovable object, yet during the next 12 months American policy toward China must be rationalized into something which preserves the strategic position of the U.S.–namely, some influence over the fate of Formosa. It is conceivable, even probable, that Red China can win enough votes by this time next year to get into the United Nations. The offshore islands will probably have to be pawned while the UN debates the fate of Formosa during the next five years. Those five years will see a major revision of policies toward China and Russia. As a member of the UN, with expanding trade and other contacts with the West, China will be far less dependent on the USSR. ■

In its pricing policies the modern corporation considers cost factors more than the effects of market fluctuations

TECHNIQUES OF ADMINISTERING PRICES

by Benjamin Caplan and Joel B. Dirlam

■ DURING THE PAST 30 years prices have tended to be stable when business declines and to advance when business improves. The growing inflexibility of prices during business declines is shown by a study of the comparative behavior of industrial production and prices during the last five recessions.

The decline in industrial production during the Great Depression of 1929, when there was a great drop in both production and prices, was almost twice as great as the decline in industrial prices. Production fell 54 per cent in comparison with an industrial price decline of 29 per cent. During the recession of 1937-38, the ratio of the fall in production to that of prices was almost 5 to 1, as industrial production fell 33 per cent.

In the postwar period we find even greater inflexibility. During the 1948-49 recession, the ratio of the decline in industrial production to the decline in industrial price was 2 to 1, the same as in the Great Depression. But in the 1953-54 recession, the ratio became 17 to 1, and in the 1957-58 period, 24 to 1.

It should be noted that the postwar declines in industrial production were quite significant, ranging from 10 to 13 per cent. The 1948-49 recession was the last period when declines in average industrial prices were quite substantial, amounting to about 5.5 per cent. Extremely important is the fact that during the last two

recessions the average decline in industrial prices has been virtually insignificant, amounting to only .6 per cent. Of course, some industrial prices, like that of copper and some other basic commodities, have gone down sharply, but the averages have been remarkably stable.

This postwar behavior of prices and production is in striking contrast to that described by classical theory, which says that flexibility of prices tends to maintain production. Yet we have seen the reverse–flexibility of production maintaining prices.

It is true that the official price indexes do not tell the whole story. There are numerous special discounts, price concessions and deals that do not show up in the indexes. We have no reason to believe that price indexes are less representative now than they were in earlier business declines. Not only are prices inflexible on the downside, but they are increasingly so. This characteristic is not necessarily objectionable; the data show, too, that the intensity of recessions has been declining *pari passu* with the atrophy of prices.

Various reasons have been advanced for this "ratchet effect." Businessmen attribute the behavior of prices to the constant upward pressure of costs, principally wages; labor attributes it to inflexible profit margins protected tacitly by accepted rules of business behavior. One important group of analysts speaks of the Age of Inflation. The situation, they say, is brought about by the commitment of governments to full employment and growth, with the result that there is a continuing pressure of excess demand. This climate facilitates the raising of prices and wages by business and labor, or, alternatively, eliminates the need for any widespread price or wage cutting when business declines. The feature common to all of these explanations is that they draw attention to the great changes which have taken place in our institutional environment.

In the field of manufacturing, prices are predominantly "administered," made by individual sellers as a matter of conscious policy. Furthermore, the price decisions made at the manufacturing level tend to carry through to the wholesale and retail levels. Wholesalers and retailers add customary markups to arrive at their sales prices. Thus, where formerly the predominant characteristic was that sellers were price-takers today this characteristic is that most sellers are pricemakers.

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The fact that prices are administered does not lead to the inevitable conclusion that businessmen necessarily alter prices only upward. Many of the forces that might be expected to influence individual price-makers–competition of similar products, the pressure of public opinion, possibility of elasticity in the long-term demand, opportunities for technological improvements in production–would seem to have a downward bias. In logic, prices could just as easily move down as up; in reality they have not.

The question then is: If most industrial prices are administered, how are they administered? Furthermore, what is the relationship between price administration and price inflexibility?

A complete answer is not yet available, although important elements of an answer are. Most businessmen are unwilling to reveal the procedures and–what is more important–the motivations of price-making. They are afraid of giving valuable information to competitors and thus handicapping their market strategy. Nevertheless some have realized the value of a better understanding by the public and Congress. The larger firms have given the more detailed explanations; the smaller ones profess to follow their lead in business policies.

The determinants of price-making can be illustrated from several industries which cooperated in a recent Brookings Institution survey. General Motors has stated that it first plans the features of a new automobile, estimates the minimum possible cost at which it can be produced (assuming production at 80 per cent of capacity) and adds a profit of 15 to 20 per cent on the investment. Thus, the price is dependent upon the features the company decides to incorporate in the new auto because these will determine the costs.

Price determinants

U.S. Steel similarly explains its pricing in terms of what it calls "a hard-boiled application of standard costs in pricing individual products." It makes annual revisions for changes in labor costs, new machines and all changes that would affect actual costs. What it regards as a "fair profit" is part of the final price.

International Harvester makes more elaborate cost calculations than U.S. Steel and General Motors. It compares normal costs, based on an estimated utilization of capacity projected from the experience of past years, with the company's experience each year at the close of the manufacturing season. It then sets a profit rate that it would like to earn, but this differs from machine to machine.

Kennecott Copper Company, the

largest domestic producer of copper, has continuously advocated price stabilization, and has tried, without much success, to sell at prices differing from the wildly fluctuating world price. It emphasizes the importance of stable inventory values for fabricators, rather than the return over cost.

Not all the large corporations set standard-cost plus fair-profit goals for their pricing, nor can many of them do so for all their products. The meat packers, for instance, sell in a market where prices fluctuate so continuously that cost studies can serve only as a check on internal efficiency. Large retailers like Sears Roebuck and A & P, whose margins consist almost entirely of overhead costs, can fix target prices only if they have close arrangements with their suppliers. General Electric and International Harvester press their engineers to make costs match what seems to be the necessary price on a new product. Chemical companies like Union Carbide reduce prices sharply on new products when there is a wide demand for them.

Influences at work

It would be tempting to say that the increasing reliance on standard costs, and on a fair or standard profit, serves to explain the decreasing response of price to production declines. Yet the large corporations point out that they cannot always attain their pricing goals. New products, style changes introduced by competitors, imports, shifts in technology and in public favor, and conservatism all influence final price. Thus, Esso told Brookings that "the normal price structure rarely obtains."

The domination of pricing by large corporations, and their greater reliance on computations of standard, or ideal, costs, plus a target profit, have nevertheless contributed to maintaining prices in recession, particularly in view of the upward and frequently automatic push of wage rates.

The response of both the steel and automobile industries to drastic declines in demand in 1957-58 illustrates the consequences of standard cost procedures. Once an industry has set itself the goal of covering a standard cost, it feels justified in upping prices in proportion to increases in direct costs, regardless of profits. Thus, after the wage adjustment of July 1, 1958, which raised steel companies' costs four dollars a ton, the industry lifted prices by an equivalent amount despite an idle capacity rate of 50 per cent.

This major reliance upon standard costs goes a long way toward explaining why industrial prices fail to respond to business declines. But there is another side to

the coin. Similar adherence to a standard cost policy implies that in periods of rising demand, prices will move up in response mainly to cost increases. Thus, business does not seek all that "the traffic will bear" in a boom, so that the price increases are less than would take place if prices were completely flexible.

Businessmen regard a reasonable profit level not simply as the end result of competition in a free enterprise society, but as something to which they are ethically entitled. Because of the wide discretion the administered pricing system gives to business, this ideal of a reasonable or fair profit sensibly influences the price level. Businessmen justify high profit rates as necessary to provide funds for replacement or expansion; U.S. Steel, for instance, believes that consumers should pay for expansion of capacity. Businessmen are, however, conscious that extremely high profits encourage competition, stimulate demands of labor for wage increases, and rouse the cry from the public and Congress that profits are responsible for price increases.

It should be emphasized that the standard cost policy has not been put to too severe a test. In the postwar period, the drops in industrial production have been between 10 and 13 per cent and the decline in the whole economy has been less than five per cent. Furthermore, the recessions have not been prolonged. What would happen if we encountered much more severe declines in business? Would business then find itself compelled to abandon its standard cost policy in favor of a more flexible one? The answer will have to await a real test, which we must hope will never come.

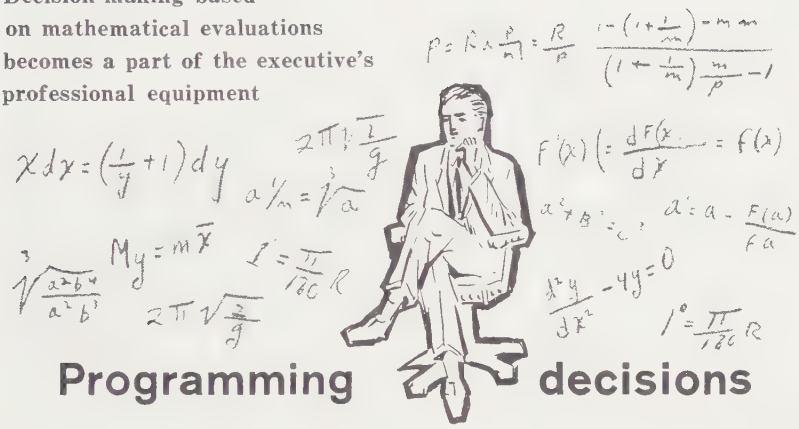
We are witnessing a movement into an economy where there are working concepts of a "fair wage" and a "fair profit." Because of the wide margin of discretion, the beliefs of the price-makers about what is right and proper have a good chance of realizing fulfillment. ■

Answers to Challenge Quiz

(see page 79)

(1) False *(see page 8)*
(2) True *(see page 39)*
(3) False *(see page 59)*
(4) True *(see page 29)*
(5) True *(see page 18)*
(6) False *(see page 13)*
(7) False *(see page 54)*
(8) True *(see page 44)*
(9) True *(see page 64)*
(10) False *(see page 35)*
(11) True *(see page 69)*
(12) True *(see page 24)*

Decision-making based on mathematical evaluations becomes a part of the executive's professional equipment



Programming decisions

by Sidney Schoeffler

■ THE GREAT industrial revolution has been prolific in producing subsequent developments with a powerful revolutionary effect of their own. Our way of life and powers of accomplishment are about to be drastically changed by the most recent of the revolutionary progeny. We are now dealing with a situation compounded of three factors: nuclear energy, automation and newly emerging technology of making decisions.

Nuclear energy and automation are becoming familiar phenomena; they are clearly visible, indeed spectacular. But decision-making cannot communicate its importance by physical presence. Consisting of a body of abstract principles, it cannot be placed on exhibition, photographed or even easily described. Few of us realize its remarkable character and potentiality, or the extent to which it is already affecting our lives.

The new decision-making technology consists of a group of rapidly developing and yet only partially coordinated disciplines, among which are:

•*Probability theory:* the rational calculation of odds and expectations in the face of uncertainty about the outcome of a contemplated course of action. It can thus predict the likelihood of occurrences of certain events and permit an estimate of the gains or losses that will accompany given alternatives.

•*Game theory:* the rational formulation of a strategy of ac-

tion when confronted with a calculating and informed "opponent." A firm might, for example, be trying to fix the best competitive price for a product it sells. The theory facilitates the discovery of a "good" course of action even when the opponent or competitor can be assumed to have discovered the firm's strategy in advance and to take the strongest possible countering action. In the simplest case, the best policy would be to adopt the "minimax" strategy, which is the choice of that course of action whose worst possible outcome is better than the worst possible outcomes of all other potential courses of action. Another possible policy might be to "randomize" our course of action, i.e. let chance make the final decision. This could be done by flipping a coin or taking a slip of paper out of a hat. The point is that your opponent cannot possibly outguess you, if even you cannot predict your decision.

Allocation and deployment

•*Search theory:* the rational allocation and deployment of limited means with known performance characteristics in searching for objects of unknown location. This is important in finding oil and ore deposits.

•*Programming:* integrating simultaneous and sequential operations of a large number of facilities with limited capacities. The objective is the efficient attainment of an over-all goal. A plant, for example, might program the production of a minor machine part five days after the beginning of production of a major item. The point would be not to waste storage space on a product before it is needed, and not to waste time waiting for it when it is needed.

•*Information theory:* the efficient and error-free collection, transmission, processing and distribution of information. The library becomes an active agent instead of a passive repository of buried facts.

•*Sampling theory:* the use of carefully chosen samples instead of time-consuming full-count censuses of population, television audiences or products in quality-control inspection. This not only reduces the sheer labor of a complete census but also permits following trends that change too fast to be measured by the more thorough method.

•*Queuing theory:* using probabilities to determine how many people will stand in line, for example, at a given number of supermarket check-out counters or banks windows. This has valuable

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applications also in establishing traffic control patterns at an airport or designing repair facilities for railroad cars.

•*Simulation techniques:* analysis of situations through the manipulation of "models" of these situations. They include physical devices like wind tunnels and pilot plants, and games in which people as well as instruments are placed in "realistic" situations. War games, thus, permit the inexpensive and quick simulation of massive events occurring over extended periods of time. Electronic computers can be programmed to carry out operations analagous to major physical events.

Decision theory is revolutionary because it is being used, and used in coordinated fashion. The history of Western culture is rich in concepts that would have had tremendous force, if they had ever emerged from scholarly confines. The theory of probability, for example, has been studied for several hundred years. Only now, together with other components of decision theory, is it finding applications in many activities, ranging through business, military affairs and politics.

Climate of our time

Why is decision theory becoming so widely used today? It is difficult to select any one cause, but the development of tools like the electronic computer established the necessary physical conditions. The climate of our time, moreover, is hospitable to the general effort toward more innovations and to research and development as a carefully planned operation.

In what areas of decision-making have the various components of decision theory found application? The following show what is beginning to happen in one of the principal areas of application, the economic world:

•*Production scheduling in the factory:* loading of various facilities and sequencing of operations, so that the desired production level is attained efficiently.

•*Inventory planning:* decisions of what commodities to stock, quantities of each, location and reorder levels. Objective: optimal balancing of production and consumption patterns.

•*Distribution of sales effort:* allocation of salesmen, advertising and other factors among the different products, customer groups and markets. Objective: maximal effect with limited resources.

•*Distribution of research and development outlays:* allocation of given resources to a large number of alternate possible research directions. Objective: best possible prospects for worthwhile discoveries.

•*Determination of product fo-*

cus: related decisions on what products to undertake, the number and type of each and the frequency of model changes. Objective: optimum way of devoting the resources of a given firm, under the competitive conditions prevailing, toward the satisfaction of the public's demands.

•*Data-handling:* efficient and timely observation of sales, costs and other economic phenomena; the effective and timely analysis of these observations, and frequently the automatic issuance of appropriate orders.

It was inevitable that the transition from old habits of thought to the new techniques of decision-making should cause pain and evoke resistance. The idea of improving the decision-making process is strange to many people. Decision-making, like breathing, loving or worrying, appears to them to be a personal human activity that cannot sensibly be improved as one improves the performance of an automobile or a laundry soap. People are accustomed to innovations in gadgets and in other things, but not in ways of thinking or behaving.

Difficuties remain even if the legitimacy and potential effectiveness of the new methods are recognized. Anxieties are occasionally aroused by the threat, imagined or well founded, of replacement by the "new men" or, even worse, by a piece of machinery. These anxieties, often joined with a primitive fear of the unknown or a reluctance to disturb a comfortable status quo may lead to active resentment of the new methods and the people who introduce them.

The innovators sometimes make the situation worse by tending to be arrogant toward the uninitiates, insensitive to the human difficulties and lacking in a sense of proportion. Some of the applications of decision-making, moreover, have been failures. The early development of any innovation like the automobile or weather prediction has been a history of repeated failures. Many new procedures in decision-making were at first demonstrably inferior to the older processes they were designed to supplant. The high initial cost of the new methods and the long installation period also tend to retard their acceptance.

Change and reluctance

The trend is clearly in the direction of change in spite of reluctance. The principal force is the fact that the new methods, when competently used in the proper context, do work and usually permit considerable improvements over past performance. They have a compulsive force in the economic system; the firm failing to use them may place it-

self at a competitive disadvantage and risk eventual bankruptcy.

It should be obvious that the change in decision-making techniques can never reach the point where objectives and basic values are chosen in a mechanical, impersonal way. Such choices must always remain a matter of human volition and aspiration. It is only the "instrumental" decisions–concerned with means and methods rather than with ends–that are subject to the technological improvements just described. The ultimate judgment must be made by the leader or executive of superior capacity, or perhaps by some kind of democratic process. Indeed, the decision to introduce decision-making techniques was a human decision.

Nevertheless, many decisions that govern day-to-day activities can be delegated to the methodology, and the great human decisions can be used on more accurate information provided by components of the decision-making process. Business management will become more professionalized than it is today. It will evolve into a complicated type of engineering, with generally recognized standards of competence and the dignity of a "learned" profession. Concurrently the underlying pure sciences will enjoy a boom as their practical applications become better understood.

The economic system will operate less through trial and error and more through a foresighted adjustment of supply to demand, probably under conditions of intensified competition. Fewer resources will be invested in things that the market will reject, and more will be devoted to the correct anticipation of what the market will want. Thus the utilization of economic resources will become more efficient, and the mortality rate of business firms will be reduced.

The distribution of people in the labor force will shift away from the routine types of administrative jobs and toward functions that require more highly developed management capacities. We can thus expect a significant structural change in our society, with the rise of a numerically large "intelligentsia" and the decline of the lower middle class.

The decision-making technology is another stage in the development of more sophisticated societal techniques. Based on an arrangement of abstractions, it nevertheless promises many of the most concrete effects the world has ever known. ■

They Work Alone

WORKERS in an automated British oil refinery see so few human beings that they have demanded extra benefits–called "lonely money."

THE PERMANENT FRONTIER

No. 10: the economics of slavery in a national environment of rapid change

■ IN 1619 THE FIRST African slaves were brought to the territory now called the United States. It was the first step toward the division of the country into two rival social and economic systems.

While slaves were brought into the English colonies in small numbers during most of the 17th century, it was not until the end of the century that the increased demand for tobacco and other Southern crops led to widespread plantation slavery in the Southern colonies. By the time of the American Revolution, half the population of Virginia and two-thirds of the population of South Carolina were Negro.

But in the late 1700s tobacco prices slumped and a prolonged agricultural depression hit the South. The humanitarian ideals of freedom and equality, strengthened by the struggle for independence, thus coincided with the desire of the established slaveholders to restrict competition and hold down the size of the Negro population. An agreement between Northern and Southern states provided for the end of the slave trade by 1808. Humanitarian Southerners like Jefferson considered slavery a temporary phenomenon and looked forward anxiously to its extinction.

But in 1793 Eli Whitney invented the cotton gin–a machine that separated cotton fiber from cotton seed–and thereby cut production costs drastically. English textile mills demanded more and more raw cotton, and plantation slavery achieved new vigor as Southerners threw themselves into the production of the profitable staple. By 1830 there were almost two million slaves in the South and, in spite of the closing of the slave trade, the Negro population doubled within the next 30 years.

Cotton prices rose to 35 cents per pound in 1815 and remained at high levels until the late 1830s. Maryland and Virginia, while they could not grow cotton, became the principal suppliers of young slaves for the other Southern states. The capital realized on the sale of the surplus slaves was poured into agricultural improvement, and the economy gradually shifted from tobacco to grains that were often grown with free labor.

Beneath the surface of American life a new power was rising to challenge the unity of the nation. Having won independence from Britain, the planters of the slave states became the rulers of their own domain: politically powerful, haughty, proud and determined to cast society in their own image. While its economy was forced into colonial dependence on the North and on Britain, the political life of the South remained in the hands of the local aristocracy.

The planters fashioned themselves, in the words of one of their number, to be what the nobility was in other countries. "Planting," said another, "is the only independent and honorable profession in this country." Yet, of the slaveholders, the planters (those with 20 or more slaves) formed only 12 per cent of the slaveholding population in 1860, while the medium slaveholders (10 to 19 slaves) added another 16 per cent, and those with five to nine slaves brought the combined figure to only 50 per cent of the slaveholders; the other 50 per cent had one to four slaves. Seventy-five per cent of the Southerners owned no slaves at all. However, those with 10 or more Negroes owned three-fourths of the entire slave force, and controlled the greater part of the income. Thus, economic power was concentrated in the hands of a small elite.

Slavery *demanded* the plantation: the most efficient way to organize a force of workers who are provided with no incentives to produce is to work them in gangs under the closest possible supervision. And while slavery did not create the dependence upon a single crop, it made it impossible for the South to diversify its production. During the period 1837-48, the price of cotton hovered around a depressed six or seven cents a pound; yet there was little effort to switch to other crops.

Slave labor was notoriously inefficient. The slaves worked badly, slowly, carelessly; they mutilated and neglected livestock; they broke implements; they shirked work. Since slaves could not be trusted with good implements and

This is the tenth article of a series in CHALLENGE which deals with the history and development of the United States economy.

machines, the planters gave them extra-heavy equipment like a special hoe which weighed three or four times what a hoe should weigh to be efficiently operated, or very light equipment, like the shovel-plow, which a girl could carry and a child could break, but which at least had the advantage of being inexpensive. Probably no more than eight per cent of all the landowners in the Cotton Belt had 500 dollars invested in implements and machinery. Poor equipment and indifferent labor made it difficult to maintain the fertility of the soil; for spreading manure, deep plowing and crop rotation all require good tools, careful work and ready cash.

Mark of prestige

Lack of capital was one of the most important features of the slave economy. Most of the planter's money went into the purchase of slaves, and since slaveholding was a mark of prestige and honor, planters were often impelled to spend far more for slaves than strictly economic conditions warrented. Since the planter had to bear the cost of the slave's maintenance, the initial cost of purchasing the slave was not equivalent to the laborer's wages, but an additional charge–and a large one. Slave prices rose steadily after the closing of the African slave trade, and in the 1850s a good field hand would often cost 1,000 dollars. Moreover, this investment was precarious, for if the slave died before he paid it off, the loss was wholly on the planter's shoulders.

Capital accumulation was made difficult by the intricate credit system that bound planter to the factor, who extended the credit necessary to enable the slaveowners to meet various obligations during the year. Thus every bale of cotton was subject to several commissions by middlemen, and every article purchased by the planters–foodstuffs, clothing for the slaves, supplies of various kinds–was marked up in price as the result of the credit arrangements. And worse, since the planter had to pledge his crop in advance, he was perpetually in bondage to cotton production–whatever the condition of the market.

The South lost millions of dollars in every possible way. It lacked shipping, so Northern shippers made fortunes handling Southern goods. It lacked manufacturers, so Northern manufacturers controlled the Southern market. It lacked diversified agriculture and foodstuffs, so Western farmers sent their pork and corn south into an agrarian region that could not even feed itself. Southerners complained bitterly that the South was being robbed by tariffs and unfair prices.

In the 1840s and 1850s, the South was alive with discussions about the achievement of commercial independence, and schemes abounded for cutting cotton production, stimulating local manufactures and diversifying agriculture. But the concentration of wealth in the South prevented the growth of a home market of prosperous yeomen like the West, and the lack of that home market, together with the planters' fear of urban businessmen and workers, prevented the rise of local industry.

The South then had to ship its cotton to New York for transshipment to Europe because the lack of a home market in the South reduced imports to a small fraction of exports. New Orleans accounted for one-fourth of the nation's exports, but only one-fifteenth of the imports, and Mobile, the other big Southern cotton port, imported virtually nothing. Thus, if the South had tried to cut New York out of the trade, her ships would have had to return from Europe in ballast. Even so, only the Northeast had the capital to finance the shipping lines.

Economic colony

The agrarian South, unlike the agrarian West, became an economic colony of New York and London. While the Western farmers found a growing market for their foodstuffs in the rising cities of the West and the older cities of the East, the South remained tied to cotton and could not even feed itself. While the West had an import surplus during most of the ante-bellum period, and obtained outside capital to finance its growing economy of cities and family farms, the South saw its capital resources steadily drained. While the Western farmer increasingly thought of himself as a small businessman and a participant in a middle-class economy, the Southern planter struck an aristocratic pose and disdained the world of business.

In the early period of American history, the West and South had stood together in defense of agriculture against the growing power of Eastern commerce and manufacturing. But as slavery became more firmly established, the South and West diverged. Fearful of the growing might of the free states and anxious to cut governmental expenditures that benefited their region little, the planters opposed homestead legislation, internal improvement and, of course, tariffs. The West, for its part, found its Southern trade declining relative to the immensely expanding commerce with the East. By 1860 the alliance of the agrarian and industrial free states against the planters was complete, and was symbolized by the legislative

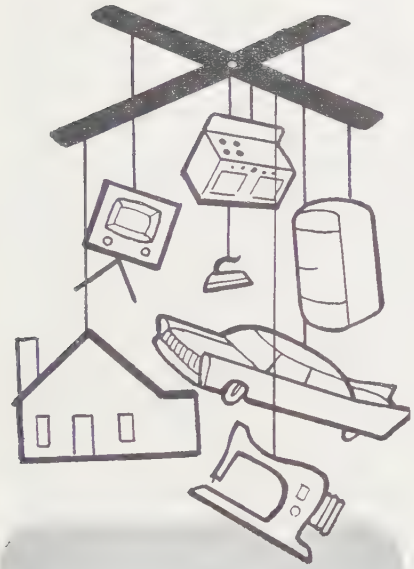
agreement that brought about Western support for the Morrill Tariff of 1861 in return for Eastern support for a general homestead law. The planters were isolated.

The South fell to brooding. What was once regarded as a necessary and temporary evil was now belligerantly defended as "the peculiar institution." The Negro was fit only to be a slave. Northern white workers were worse off than Southern Negroes. Slavery was the true condition of all labor. Southern institutions were the best guarantee of genuine civilization.

What made these boasts so pathetic was the deepening crisis of slave society and the slave economy. Although cotton prices were high throughout most of the Fifties, there were unmistakable signs of economic decay. The Northern political opponents of the extension of slavery were now strong enough to prevent the South from acquiring new slave states. But the continuation of the slave system on the basis of cotton production presupposed a moving frontier.

This process rested upon a continuing demand for slaves. By 1860 the land of the Cotton Kingdom was on the way to exhaustion under the pressures of the inefficient slave system and the inability of the economy to accumulate sufficient capital to restore fertility. Either the South acquired fresh land, or it would be faced with the decay of slavery in the older areas. Maryland and Delaware had already become largely free-labor states, and Virginia, North Carolina, perhaps even South Carolina and Georgia, would have to follow suit or go bankrupt. Moreover, the poor whites and nonslaveholding farmers, not to mention the small slaveholders, supported the planters in the hopes of becoming planters themselves some day, or because they shared, though disproportionately, in the temporary prosperity. But if cotton prices should again fall and the South were to be cut off from the acquisition of new lands, the internal disorders might become serious. Cotton prices began to decline in the late Fifties. The slaveowners had to move quickly or be lost. To them, secession was more than a constitutional quarrel, more than an economic one; it was the last hope for their way of life. ■

NEXT MONTH: Civil War is precipitated by the conflict of two rival economic systems along an expanding frontier



consumer credit:

REASONABLE and RESPECTABLE

by Ervin Miller

Consumers have amassed a tremendous debt but they appear to be able to control it by common sense

■ ONCE socially unacceptable, consumer credit reached the magnitude of 34 billion dollars by the end of last year. If it was no longer an example of individual aberration, it meant that the community was engaged in financial activities that courted a new element of risk. How rational are borrowers–and lenders–in managing this great private debt?

We must concede to the private borrower an important subjective element. The goals of personal life are hard to define in scientific terms, and there is no agreement as to what constitutes rational behavior. It is necessary to accept multiple criteria, after rejecting the old view that installment credit can be justified only in time of emergency. The individual operates in terms of his environment, and that environment sanctions the use of consumer credit.

The other criteria of rational behavior are positive. The life-cycle approach teaches that certain expenses are connected with certain periods in a man's life. The young head of a growing family will have needs that cannot be satisfied by his present income, and it would be reasonable to postpone some of his costs to a period when he will be earning more. Families whose heads are 25 to 34 years old make the most frequent use of this type of

credit. In terms of family position and age, married individuals between 18 to 44 with children under 18 require credit most often. Clearly these are the groups typically under financial pressures to make outlays for expanding household needs.

Another widely used test relates to whether debt is self-financing in whole or in part. Obviously this is often the case, where payments, for example, on an electric refrigerator replace those to an ice company and the consumer debt becomes in effect a substitute for ice company debt. The greater convenience and saving of time that ordinarily results from the use of modern household equipment may lead to other economic advantages to a family.

Welcome whiplash

The argument that installment debt forces individuals to save also has merit. Some welcome the whiplash of required monthly payments, for without it they might never have the fortitude to make the sacrifices necessary to pay for some greatly desired object. Some prefer the use of installment credit to eating into capital; they do not trust themselves to have the discipline to replace the withdrawals by future saving.

Who is to say, too, that an individual is irrational when he insists on present gratification of wants and is willing to pay interest to achieve his goal? Given the accepted goal of free consumer choice in a private enterprise economy, it is up to the consumer to determine if he wishes to make interest payments on an automobile and forego, say, theater tickets or a vacation.

If one's test is careful use of standards by borrowers to measure their success in making installment payments, it appears necessary to conclude that most borrowers are rational. Lenders repeatedly hold to this position in discussing consumer credit. Moreover, the increasing emphasis on financial planning in middle and lower income groups supports them. Not only have books on personal finance become popular, but treatment of personal finance in adult educational programs and elsewhere has become increasingly widespread.

Just as in the field of business credit, consumer installment creditors have a network of facilities for determining credit-worthiness of potential debtors. There are formal facilities like credit investigating agencies and credit bureaus which maintain files on the credit records of consumers. There are also informal ap-

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proaches like checking references, and the "financial analysis" of the individual's circumstances, including type of job, length of employment, character of industry in which employed, income, size of family, real estate owned and payments per month due on it, tenant-landlord relationships, other debts outstanding and amounts due each month. From the composite picture, creditors can derive by rough rules of thumb the amount of credit which they are willing to extend.

Financial intelligence

After financial intelligence concerning credit-worthiness is obtained, however, its application, just as in business credit, is bewildering in its diversity. One finds no semblance of a standard which a borrower must meet in order to obtain credit. Even a given lender may employ more than one set of standards.

Commercial banks have both sought the better credit risks and have been sought by them. In turn, banks have offered lower interest rates than their competitors, with the single exception of credit unions. The sales finance companies, which operate principally as purchasers of bills from dealers, tend to have somewhat lower standards and slightly higher rates than banks. Merchants who finance their own installment credit have standards well below the highest, owing largely to the fact that credit is the handmaiden of sales. The small loan company, offering principally remedial credit, has standards inevitably lower than those of other institutions. Credit unions operate within a framework of their own, making personal loans to borrower-members, usually at the lowest rates and with very small apparent risk.

Creditors have been rational by normal standards. If growth of the industry is a test, there is no issue. If collection of losses are a test, the creditor scores well, with net collection losses of less than one per cent for many lenders, rising to perhaps two per cent for others.

One must not overlook the fact that excessive concern for cutting losses may lead to significant limitation of net profits through a sharp reduction of the volume of loans; thus excessive caution could be irrational. Lenders with higher collection losses, in fact, tend to have higher gross income per dollar of loans and so tend to be at no disadvantage in terms of net return per dollar of loans.

Creditors are making use of the latest financial analysis to guide themselves in reaching decisions. They consider the importance of the purpose of proposed borrowing (buying a color television set

vs. replacing a worn-out heater) and marketability of any collateral (a small swimming pool vs. a new automobile). Factors like purpose of borrowing and marketability of collateral grow in importance as a prospective debtor's personal credit rating falls.

Competition and standards

It is true that there are so many more consumer than business borrowers, with typically smaller average loan balances, that the grantor of consumer credit can scarcely be expected, or to afford, to use the same degree of care in making his analysis of risk. He is under pressure to make decisions quickly and to trust to the law of averages to limit his losses.

Competition among creditors may cause a breakdown in standards. Thus a sales finance company may extend lax terms for fear that merchant-clients will shift business elsewhere. Merchant creditors are likely to allow concern for sales to becloud credit judgment. In turn customers may be induced to overbuy. "Stealing" from future markets may result, with threat to economic stability. On the debtor side there is the old but not wholly foolproof argument that poorer borrowers tend to patronize unethical and lower grade stores, reaping inferior merchandise, high prices and the greatest finance charges.

Probably most debtors are unaware of the true costs of installment credit. The very common statement of "six per cent interest on automobile financing" is misleading, for actually the true rate is nearly 12 per cent; a borrower's debt is being reduced monthly while his interest is computed on the face amount of the funds borrowed. Indeed, the five or six per cent typically applies only to new cars. On used cars, depending on the age, effective true rates may rise to, say, 18 or 20 per cent on cars less than two years old, and 24 or 26 per cent on older cars. In revolving credit at department stores, the consumer may be buying everything on the installment plan–at an effective annual rate of 18 per cent.

Many consumers fail inadvertently to select the cheapest sources of credit. For example, one may borrow 500 dollars at a small loan company at a true annual rate of 25 per cent, whereas a commercial bank might have charged roughly 12 per cent per annum. Indeed, the small loan companies rely heavily on the failure of many of their potential customers to shop around for cheaper facilities. Many people remain unaware of the true rate differentials, or they are overawed by banks. They fear that they are not "bank credit material" and permit themselves to be overawed by the

impressive architecture of banking quarters. Banks have had some success, however, with advertising that seeks to communicate a more democratic image.

Increasing resort to installment credit may lead to less rational allocation of purchasing power by individuals, and, in turn, to apparent waste of resources by society. The consumer may buy more goods or more expensive goods than are justified by his position. He may forget to calculate the pain of his extra year of installment payments, to the disadvantage of items of perhaps higher priority.

Many debtors appear to think in terms of prosperity forever. This may lead, as in Detroit and Pittsburgh in 1957-58, to widespread distress, including repossessions of automobiles and other durable goods. There is evidence also that a substantial proportion of users of installment credit commit seemingly dangerous proportions of their disposable income to servicing that credit.

Ignorance of all the relevant conditions is not, however, purely a borrower prerogative. The lenders may have inadequate information for credit analysis. A given region may have several credit bureaus, each operated for a separate group of creditors and furnishing information to them alone.

Improvement in consumer credit practices must be sought in the familiar combination of legislation, voluntarism and the obvious lessons of bitter experience. Voluntary action would include self-policing by trade associations, and leadership by those operating on a large scale with high standards. It would also include publicity and private pressures by governmental supervisory agencies to induce creditors and debtors to act more intelligently.

Probably the largest contribution is to be expected from additional state legislation directed at the maintenance of standards in installment credit. Of greatest importance are laws governing installment-sale credit which require full disclosure of all pertinent details in contracts and establish maximum rates of interest and other charges. Laws of these types already exist in a number of states.

It should be noted that fairly rigorous regulation already largely governs installment cash lending in virtually all states. Proposed here is a simple extension of regulation to sellers of goods who make installment contracts with buyers and either hold the paper or sell it to financial institutions. Installment credit has become a commonplace of the American market. It would pose no problem if its detailed operations were as rational as its principles. ■

Everyday Economics

■ AMERICANS IN EUROPE have a much better chance of getting antiques at lower prices during the fall. The crowds have gone home and dealers are usually more willing to bargain. Be cautious at recognized antique centers, such as the Flea Market in Paris, Petticoat Lane and Silver Vaults in London, El Rastro in Madrid or Via Margutta in Rome, because they seldom offer real bargains. You might get good buys in small country towns or little shops along the roadside. Look for items a little outside the dealer's stock-in-trade; a bookseller might have a rare piece of porcelain at a good price.

Recent gains

THE GOVERNMENT has increased its share of funeral expenses from 150 to 250 dollars when a veteran who saw active service in wartime dies. Permanently disabled holders of National Service Life Insurance who pay extra for disability coverage will be getting bigger benefits. The monthly payments will be 10 dollars per 1,000 dollars of insurance, instead of five dollars. The time for veterans of the Korean war to claim mustering-out pay is extended to July 16, 1959.

Moving safely

IF YOU are planning to move in the near future, special insurance to cover it is really necessary. The mover's liability on long-distance trips is very limited, with many smaller items not covered at all. In addition, the mover is not responsible for many objects you packed or crated yourself. Most moving companies supply insurance for the entire shipment, at a cost of approximately five dollars per 1,000 dollars valuation. The distance of the trip has no effect on insurance expenses, and you are covered for any damage or loss in handling or transit. You usually get emergency storage coverage

for 60 days, which means that if you cannot take occupancy on schedule, the insurance is good for a temporary storage period.

Price is too right!

THE "advance-fee" racket fleeces many property owners out of an estimated 50 million dollars annually. A salesman finds a small homeowner anxious to sell out and ridicules his low asking price, insisting his agency can get much more. The salesman demands an advance fee of one per cent on the newly inflated asking price, and pressures the victim into signing an on-the-spot contract. The homeowner never gets the fee returned, since the contract only says that the agency will try its best to make the sale.

Better money

THE FEDERAL government is now offering better starting salaries to college graduates. Under a recent law raising the pay of many federal workers, the Civil Service Commission is authorized to hire college graduates for starting professional jobs at 4,980 dollars a year. The old law offered 3,670 dollars as the initial pay for such positions. Increases in pay rates, and a provision in the new law permitting the Commission to start college graduates in higher classifications account for this considerable difference in wage inducement.

No guarantee

THOSE NEW required auto labels will not assure you of a good deal on a new car. The listed price is neither the dealer's cost, nor the price the buyer must pay. It is only the manufacturer's *suggested* price, which is open to bargaining. The label's purpose is to make it difficult for the dealer to receive by offering an inflated trade-in price on an old car and increasing the price of the new one proportionally.

Casual employment

IN MANY STATES, youngsters are not required to have a work permit to act as baby sitters. This is considered *casual work* and is not covered by child-labor laws. But, the wording in the laws of several states is ambiguous. According to the U. S. Department of Labor, the best source of information on occupations requiring work permits for minors is the school principal.–L.B.

The Idea of Freedom. Mortimer J. Adler. 689 pp. New York: Doubleday. $7.50.

•Prof. Adler's methodology is much more interesting than his product. He has founded the Institute of Philosophical Research to summarize the wisdom of the world, surely a commendable ambition. The present book is part of that effort and represents five years of concentrated work by 20 scholars under Adler's leadership. It categorizes various aspects of freedom–as defined by the Adler team–and illustrates by citations from the great thinkers, proceeding from a "nonphilosophical approach to philosophical ideas." But any approach to ideas is inescapably philosophical, and Adler's attempt to be scientific and precise rests on similarly doubtful postulates. The result is a morgue of amputated ideas that have lost their character. Aristotle, Boethius, Hobbes and Dewey become almost unrecognizable as they are imprisoned in an encyclopedist's schema. Adler ignores the fact that an idea is illimitable, vague and personal; he kills in the act of categorizing. The book indicates the weakness of the "wisdom" project. An effort to think about thinkers must be as creative in ideological terms as the thinkers' cerebrations themselves. The committee method cannot avoid being arbitrary in its selection and analysis, and it suffers the additional handicap of stultifying any originality by individual members.

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The American Communist Party. Irving Howe and Lewis Coser. 593 pp. Boston: Beacon Press. $6.75.

•More than a half million persons have passed through the ranks of the American Communist party since it was founded in 1919, an impressive number for a group operating on the fringe of American society. The party's agony is deserving of a native Dostoevski; utopias are most enthusiastically espoused by individuals and groups with the greatest talent for suffering. Howe and Coser have neatly ordered information derived from public sources, and pointed up their emphases with journalistic dash. Their self-imposed handicap of not talking with past and present Communists weakens the book, but they compensate in part by thoroughness and percipience. Their modesty, however, in refusing to establish a position on the fundamentals of political and economic ideas is a more difficult handicap to overcome. The Communists raise basic questions by their existence, and their activities are a measure of the world's weaknesses and dangers.

The dim, distorted Communist passage is a particularly dramatic antechamber to a useful view of society. Here we see acted out the idiocies from which none of us are completely free but which only fanatics have the blindness and energy to turn into absolute action.

* * *

Man and Crisis. Jose Ortega y Gasset. 217 pp. New York: W. W. Norton. $4.50.

•The author of the *Revolt of the Masses*, one of the more pertinent critiques of the disintegrating impact of mass values on Western civilization, compares the resulting confusion with similar transitional periods in the past–in particular the late Roman Empire and the 15th century. While admiring Senor Gasset's learning and the originality of many of his observations, it is doubtful whether we can learn very much from the interesting parallels he draws. To say, for example, that all these periods have been marked by intellectual and moral uncertainty, does not help us discover new meanings. The author does, however, point to a genuine problem and he does so in a stimulating fashion.

* * *

A Philosophy of Administration. Marshall E. Dimock. 176 pp. New York: Harper & Brothers. $3.50.

•Prof. Dimock, a former Assistant Secretary of Labor who is currently head of the Department of Government at New York University, addresses himself to the questions that most of his fellow administrators usually ignore completely. The good administrator, Dr. Dimock convincingly argues, must be judged in terms of his ability to provide for the creative growth of all individuals in his organization. The mere growth of organizations is no sign of administrative virtue. Dimock does not share John K. Galbraith's faith in "countervailing power." Neither does he share the prevailing optimism in the "efficiency" of institutionalized businesses. His book is a corrective to easy assumptions made by proponents of new capitalism.

* * *

As Unions Mature. Richard A. Lester. 171 pp. Princeton: Princeton University Press. $3.75.

•One of our leading academic labor economists studies one of the big question marks of the "New Capitalism": the impact of growing union power on a maturing economy. As the title indicates, Prof. Lester believes that unions are already in the process of maturing. While recognizing that there remains much room for improvement, he is basically satisfied with union policies to date and hopeful about future trends. Government regulation would, he believes, accentuate current trends towards centralization and lead to irresponsible "defensive" union policies. With all due respect for Lester's expert knowledge, even the sympathetic reader may remain skeptical. Legislation to "reconstruct" business has led to greater corporate responsibility; there seems little reason to believe that intelligent labor laws would not do the same thing for labor unions.

* * *

The Uniting of Europe. Ernst B. Haas. 552 pp. Stanford University Press. $8.00.

•Haas attempts to anatomize the agony of knitting Western Europe

into a healthy federation. The subtitle, *Political, Social and Economic Forces, 1950-1957*, indicates the basis for such a study, but Haas has failed to make his way through the federal bureaucracies to those forces. His effort remains a formal description of administrative arrangements, supplemented by group psychology from the distance. He postulates a sense of participation as the determinant for the success of a conference. International cooperation is based on harder realities than a comforting psychological aura.

* * *

The Puerto Ricans. Christopher Rand. 178 pp. New York: Oxford University Press. $3.75.

•Since the end of World War II, a half million Puerto Ricans have hopefully migrated to New York and found ill-paying employment, crowded slums and open hostility. Their story is a familiar one in the city's long history of exploited immigrant minorities. But unlike many of their predecessors, this group has held to its native language, customs and ideas in fear of an Americanization that might mean the end of a distinct and colorful heritage. As Rand wisely points out, Puerto Rican reluctance to assimilation is not due to perverseness or laziness, but to the confusion of a proud people transferred to a highly industrial society.

* * *

Peace Without Victory. Lawrence W. Martin. 230 pp. New Haven: Yale University Press. $4.50.

•Woodrow Wilson came to Paris in 1919 well aware that his allies sought a markedly different peace from the one he desired. Throughout the war, he struggled vainly to convert selfish and vindictive war aims into a theoretically just program that would guarantee a stable international order. Author Martin ably narrates these efforts, but he fails to apportion responsibility for Versailles between the competing obduracies of classical diplomacy and vague Wilsonian ideals.

* * *

The Politics of Despair. Hadley Cantril. 269 pp. New York: Basic Books Inc. $5.00.

•Dr. Cantril utilizes case histories and direct interviews of many French and Italian workers to determine why they vote for the Communists while refusing to join their party. The testimony is an indictment of an inefficient and archaic economic system that offers low wages, miserable housing and a sense of social inferiority. But communism is an alternative that has little attraction for these voters and they often vote Left just to frighten the privileged classes into contemplation of reform. The author has some interesting evidence on this proleterian dilemma, but his presentation is emotional and repetitive.

* * *

The Great Arms Race. Hanson W. Baldwin. 116 pp. New York: Frederick A. Praeger, Inc. $2.95.

•Baldwin says we retain superiority over the Russians in over-all military power, industrial strength and scientific capabilities, but the rate of Soviet progress has been faster than ours since 1949. The author's judgment: we can ill afford emotional extremes at the possibility of all-out nuclear warfare. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 58.

(1) Population grew at an annual rate of four per cent in the U.S. from 1860 to 1900.

True ☐ **False** ☐

(2) Half of the habitual delinquents have recognizable behavior patterns by the age of eight.

True ☐ **False** ☐

(3) Probability theory became an important factor in industrial decision-making during World War I.

True ☐ **False** ☐

(4) The United States was a latecomer among nations in establishing a social insurance system.

True ☐ **False** ☐

(5) Government is today the only institution that supercedes all others.

True ☐ **False** ☐

(6) The sunspot theory of depressions has been reinforced by recent research.

True ☐ **False** ☐

(7) The meat packing industry depends on cost studies to determine future prices.

True ☐ **False** ☐

(8) The rate of productivity advance has remained nearly constant since the end of World War II.

True ☐ **False** ☐

(9) At the beginning of the 19th century, Southern cotton growers supported legislation outlawing the slave trade.

True ☐ **False** ☐

(10) Ninety per cent of all meat and groceries are now sold by food chains.

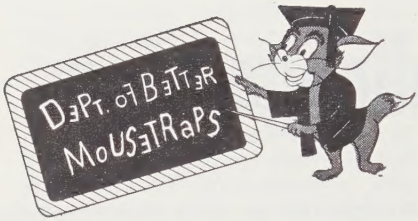
True ☐ **False** ☐

(11) Effective interest rates range as high as 26 per cent in auto loans.

True ☐ **False** ☐

(12) The percentage rise in the cost of services was more than double that of consumer goods from 1952 to 1957.

True ☐ **False** ☐



From the World of Industry: a conveyor belt that carries miners to the pit . . . A propellant loading system that will shorten the countdown time in firing liquid fuel missiles . . . A converter the size of a quarter that turns heat directly into electricity . . . Invisible rays of infrared light that transmit voice messages over considerable distances . . . An electronic photo enlarger that automatically judges the amount of light to which printing paper should be exposed . . . A fire hose reel that automatically turns on the water supply as it is unwound . . . Aluminum foam material that can be sawed, nailed, screwed, cemented or soldered; it will be used as a rot- and fire-resistant building material.

* * *

Personal Business: *Attachable chains for shoes that provide traction on icy surfaces . . . An eyeglass hearing aid that operates on solar energy . . . A rechargeable dry shaver that operates without cords or batteries; it is recharged by plugging into an electrical outlet for a few hours, giving the shaver enough power for a week of daily use . . . A plastic, portable drawing board that weighs less than eight ounces.*

* * *

Children's Corner: A doll painting kit that permits youngsters to paint the native costumes of dolls of 32 nations . . . A cardboard planetarium that consists of movable pieces for assembly, a solar system positioner, star charts and horizon indicators.

* * *

Behind the Wheel: *An X-ray machine that takes continuous pictures of tires during the various stages of manufacture to detect defects instantly . . . A pressure indicator that screws on the valve stem of the tire and tells when required tire pressure is down . . . A heating device that reduces car-warming time to minutes.*

* * *

On the Desk: A high-speed card-filing machine that arranges punched cards in any desired sequence at rates up to 1,300 per minute . . . Fluorescent papers that usually retain their brightness and utility for four months . . . An automatic bookbinding machine that converts flat printed sheets into 16-page booklets in a single operation.

* * *

Around the House: *A clothesline that reels in and out of an aluminum bracket and stays out of sight when not in use . . . A fireplace curtain that will reduce fire hazards and help eliminate the annoyance of a smoke-filled room . . . A frying pan that has a temperature control chart on its handle, listing the correct cooking heat for different foods . . . You can really relax with an electric vibrating massage pillow that has a washable cover . . . A skidproof rubber mat that has four cleats for removing foreign objects from shoes.*

* * *

Write to CHALLENGE magazine for additional information. ■